# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

1114308

**(Mark**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]**

**For the fiscal year ended December 31, 1994**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

**For the transition period from to**

**Commission File Number 1-10788**

# INTERNATIONAL SPECIALTY PRODUCTS INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **51-0333696** |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| **818 Washington Street, Wilmington, Delaware** | **19801** |
| (Address of Principal Executive Offices) | (Zip Code) |

**Registrant's telephone number, including area code: (302) 429-8554**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $.01 per share .................... | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

**Commission File Number 33-44862**

# ISP CHEMICALS INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **13-3416260** |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| **Rt. 95 Industrial Area, P.O. Box 37 Calvert City, Kentucky** | **42029** |
| (Address of Principal Executive Offices) | (Zip code) |

**Registrant's telephone number, including area code: (502) 395-4165**

**Securities registered pursuant to Section 12(b) of the Act: None**
**Securities registered pursuant to Section 12(g) of the Act: None**

**Commission File Number 33-44862-01**

# ISP TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **51-0333795** |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| **State Highway 146 & Industrial Road Texas City, Texas** | **77590** |
| (Address of Principal Executive Offices) | (Zip code) |

**Registrant's telephone number, including area code: (409) 945-3411**

**Securities registered pursuant to Section 12(b) of the Act: None**
**Securities registered pursuant to Section 12(g) of the Act: None**

**See Table of Additional Registrants Below**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best knowledge of International Specialty Products Inc., in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

As of March 15, 1995, 99,498,646 shares of common stock of International Specialty Products Inc. were outstanding. The aggregate market value of the voting stock held by non-affiliates of International Specialty Products Inc. as of March 15, 1995 was $129,454,607. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of Common Stock of International Specialty Products Inc. on such date ($6⅞). For purposes of this computation, voting stock held by officers and directors of all of the registrants and GAF Chemicals Corporation, an affiliate of International Specialty Products Inc., has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such officers and directors are affiliates of International Specialty Products Inc.

As of March 15, 1995, ISP Chemicals Inc. and ISP Technologies Inc. each had 10 shares of common stock outstanding. No shares are held by non-affiliates.

As of March 15, 1995, each of the additional registrants had the number of shares outstanding which is shown on the table below. No shares are held by non-affiliates.

**DOCUMENTS INCORPORATED BY REFERENCE**

1. The Annual Report to Stockholders of International Specialty Products Inc. for the year ended December 31, 1994 is incorporated by reference in Part II, Items 5, 6, 7 and 8.

2. The Proxy Statement for the 1995 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the Registrants' fiscal year end (the "Proxy Statement") is incorporated by reference in Part III, Items 10, 11, 12 and 13.

## ADDITIONAL REGISTRANTS

| Exact name of registrant as specified in its charter | State or other jurisdiction of incorporation or organization | No. of Shares Outstanding | I.R.S. Employer Identification No. | Address, including zip code and telephone number, including area code, of registrant's principal executive office |
|---|---|---|---|---|
| ISP (PUERTO RICO) INC. | Delaware | 10 | 13-2626732 | Suite 206B, Iturregui Plaza<br>65th Infanteria Ave.<br>Rio Piedras, Puerto Rico 00924<br>(809) 768-5400 |
| ISP ENVIRONMENTAL SERVICES INC. | Delaware | 10 | 51-0333801 | 1361 Alps Road<br>Wayne, NJ 07470<br>(201) 628-3000 |
| ISP FILTERS INC. | Delaware | 10 | 51-0333796 | 4436 Malone Road<br>Memphis, TN 38118<br>(901) 795-2445 |
| ISP GLOBAL TECHNOLOGIES INC. | Delaware | 10 | 51-0333802 | 818 Washington Street<br>Wilmington, DE 19801<br>(302) 429-7492 |
| ISP INTERNATIONAL CORP. | Delaware | 10 | 51-0333734 | 818 Washington Street<br>Wilmington, DE 19801<br>(302) 429-7493 |
| ISP INVESTMENTS INC. | Delaware | 10 | 51-0333803 | 818 Washington Street<br>Wilmington, DE 19801<br>(302) 429-7496 |
| ISP MANAGEMENT COMPANY, INC. | Delaware | 10 | 51-0333800 | 1361 Alps Road<br>Wayne, NJ 07470<br>(201) 628-3000 |
| ISP MINERAL PRODUCTS INC. | Delaware | 10 | 51-0333794 | 34 Charles Street<br>Hagerstown, MD 21740<br>(301) 733-4000 |
| ISP MINERALS INC. | Delaware | 10 | 51-0333798 | Route 116<br>Blue Ridge Summit, PA 17214<br>(717) 794-2184 |
| ISP REAL ESTATE COMPANY, INC. | Delaware | 10 | 22-2886551 | 1361 Alps Road<br>Wayne, NJ 07470<br>(201) 628-3000 |
| ISP REALTY CORPORATION | Delaware | 10 | 13-2720081 | 1361 Alps Road<br>Wayne, NJ 07470<br>(201) 628-3000 |
| VERONA INC. | Delaware | 10 | 22-3036319 | NCNB Plaza, Suite 300<br>7 North Laurens St.<br>Greenville, SC 29601<br>(803) 271-9194 |
| BLUEHALL INCORPORATED | Delaware | 10 | 13-3335905 | 818 Washington Street<br>Wilmington, DE 19801<br>(302) 651-0165 |

# PART I

**Item 1.** ***General***

International Specialty Products Inc. ("ISP") is a leading multinational manufacturer of specialty chemical products, including specialty derivative chemicals, mineral products, filter products, and advanced materials.

ISP, incorporated in Delaware in 1991, operates its business exclusively through 18 domestic subsidiaries, 27 international subsidiaries and a joint venture with Hüls Aktiengesellschaft, a German corporation ("Hüls"), in which ISP has a 50% interest and which operates under the name GAF-Hüls Chemie GmbH ("GAF-Hüls"). ISP acquired these subsidiaries and its interest in GAF-Hüls from an affiliate, GAF Chemicals Corporation ("GCC"), in May 1991 in a stock acquisition (the "Stock Acquisition") or created such subsidiaries after the Stock Acquisition. Except as the context otherwise requires, "ISP" refers to International Specialty Products Inc. and its subsidiaries and their predecessors.

In July 1991, ISP completed an initial public offering of 19,388,646 shares, or approximately 19%, of its common stock (the "Initial Public Offering"). Subsequent to the Initial Public Offering, ISP has been an 81%-owned subsidiary of GCC. GCC is a wholly-owned subsidiary of G Industries Corp. ("G Industries"). G Industries is a holding company which also owns, directly or indirectly, all of the issued and outstanding stock of Building Materials Corporation of America ("BMCA") and 100% of the capital stock of GAF Broadcasting Company Inc. ("Broadcasting"). G Industries is a wholly-owned subsidiary of G-I Holdings Inc. ("G-Holdings"). G-I Holdings is a wholly-owned subsidiary of GAF Corporation ("GAF"). ISP is indirectly controlled by Samuel J. Heyman, Chairman of the Board of Directors and Chief Executive Officer of ISP and GAF.

ISP Chemicals Inc. ("ISP Chemicals"), ISP Technologies Inc. ("ISP Technologies") and the additional registrants are consolidated subsidiaries of ISP and, together with ISP Van Dyk Inc., ISP Fine Chemicals Inc. and ISP Newark Inc., constitute all of the domestic subsidiaries of ISP. ISP Chemicals was incorporated in Delaware in 1987 under the name Nordenham Inc. ISP Technologies was incorporated in Delaware in 1991 under the name ISP 6 Corp.

The address and telephone number for the principal executive offices of ISP are: 818 Washington Street, Wilmington, Delaware 19801; (302) 429-8554 or (800) 526-5315. The address and telephone number for the principal executive offices of ISP Chemicals are: Route 95 Industrial Area, P. O. Box 37, Calvert City, Kentucky 42029; (502) 395-4165. The address and telephone number for the principal executive offices of ISP Technologies are: State Highway 146 and Industrial Road, Texas City, Texas 77590; (409) 945-3411.

Financial information concerning ISP's industry segments and foreign and domestic operations required by Item 1 is included in Notes 11 and 12 to the Consolidated Financial Statements contained in ISP's Annual Report to Stockholders for the year ended December 31, 1994 (the "Annual Report") and is incorporated by reference herein.

**Specialty Derivative Chemicals**

*Products and Markets.* ISP manufactures more than 300 specialty derivative chemicals having numerous applications in consumer and industrial products. ISP uses proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value added derivatives to meet specific customer requirements. More than 200 of ISP's specialty derivative chemical products are derived from acetylene, including intermediates, solvents, vinyl ethers and polymers, and sales of these products represent the majority of ISP's specialty chemical sales.

ISP's specialty derivative chemicals consist of nine main groups of products: vinyl ether polymers, polyvinyl pyrrolidone polymers and copolymers, solvents, intermediates, specialty preservatives, sunscreens, emollients, pearlescent pigments and fine chemicals.

Vinyl ether polymers are used in cosmetics and personal care products and pharmaceutical and health-related products, primarily in hair care and dental care products. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.

Polyvinyl pyrrolidone polymers and copolymers are used primarily in cosmetics and personal care products, pharmaceutical and health-related products and food and beverages and detergent formulations, such as drug and vitamin tablet binders and disintegrants; clarifiers and chill-hazing elimination agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; hair care products such as hair sprays, mousses, conditioners, gels and glazes; ingredients in water-resistant mascara, sunscreen and lipstick; film-formers in polishes for consumer and industrial applications and a dispersant in agricultural chemical formulations.

Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, lithography, wire enamel production, adhesives, plastics, electronic microcopies and integrated circuits, lubricating oil extraction and gas purification applications. ISP's family of solvents includes, among others, N-methyl pyrrolidone, butyrolactone and tetrahydrofuran, certain of which are used by ISP as raw materials in the manufacture of polymers.

Intermediates are manufactured primarily for use by ISP as raw materials in manufacturing solvents and polymers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products. Butanediol, an intermediate produced by ISP, is an essential raw material in the manufacture of polybutylene terephthalate thermoplastic resins and polyurethane elastomers, which are used in the automotive, electronics and appliance industries.

Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics and personal care industries. ISP sells a number of preservative products, including Germall® 115, Germall® II, Germaben® II, Germaben® II-E, Suttocide® A and LiquaPar® Oil. Uses include baby preparations, eye makeup, facial makeup, after-shave and nail, bath, hair and skin preparations.

ISP Van Dyk Inc. produces three multifunctional specialty chemical product lines which ISP markets to the cosmetics and personal care industries—ultraviolet light absorber chemicals, the principal active ingredients in sunscreens; pearlescent pigments, which provide the pearly or lustrous color in lipsticks, eye shadows and other cosmetics; and emollients and emulsifiers, which are used as moisturizing and softening agents in a variety of creams and lotions, hair care products and other cosmetics. ISP Van Dyk Inc.'s Escalol®, Pearl Glo® and Ceraphyl® trademarks are widely recognized for their respective sunscreen, pigment and emollient properties.

ISP Fine Chemicals Inc. produces a broad range of pharmaceutical intermediates, biological buffers and pheromones and several bulk active pharmaceuticals which serve the pharmaceutical, biotechnology, agricultural and chemical process industries. Fine chemicals are extremely specialized products, made in small quantities, which because of their complexity are priced at several hundred to several thousand dollars per pound. ISP Fine Chemicals Inc. also provides a custom manufacturing capability serving the pharmaceutical, biotechnology, agricultural and chemical process industries.

*Marketing and Sales.* ISP markets its specialty derivative chemicals through a worldwide marketing and sales force, consisting of approximately 200 employees, typically chemists or chemical engineers, who work closely with ISP's customers to familiarize themselves with their customers' products, manufacturing processes and markets. ISP conducts its marketing and domestic sales from ISP's headquarters in Wayne, New Jersey and regional offices strategically located throughout the United States.

*International Operations.* ISP markets all of its specialty derivative chemicals worldwide. ISP conducts its international operations through 27 subsidiaries and 40 sales offices located in Western and Eastern Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to ISP.

ISP had a significant portion of its international sales in 1994 in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. For a discussion of the Company's policy to manage these risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Financial Condition". Other countries in which ISP has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation, and general instability.

International net sales in 1994 of ISP's specialty derivative chemicals, excluding sales by GAF-Hüls, were approximately 45% of ISP's total 1994 sales. GAF-Hüls, a joint venture in which ISP holds a 50% interest, produces certain intermediates and solvents. The GAF-Hüls plant is located in Marl, Germany.

*Raw Materials.* The principal raw materials used in the manufacture of specialty derivative chemicals are acetylene, methanol and methylamine. Most of these raw materials are obtained from outside sources pursuant to long-term supply agreements. Acetylene, a significant raw material used in the production of most specialty derivative chemicals, is obtained by ISP for domestic use from two unaffiliated suppliers pursuant to long-term supply contracts. At ISP's Texas City and Seadrift, Texas plants, acetylene is supplied via pipeline by a neighboring large multinational company that generates this raw material as a by-product from ethylene manufacture. At ISP's Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide. The acetylene utilized by GAF-Hüls is produced by Hüls, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. ISP believes that this diversity of supply sources, using a number of production technologies (ethylene by-product, calcium carbide and the electric arc), provides the Company with a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that ISP would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. ISP has a long-standing agreement with GAF-Hüls to import butanediol into the United States for use as a feedstock for the production of ISP's solvents and polymers. ISP has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty derivative chemicals.

With regard to raw materials other than acetylene, ISP believes that in the event of a supply interruption it could obtain adequate supplies from alternate sources. Raw materials derived from petroleum or natural gas are used in many of ISP's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to ISP's operations. During 1994, crude oil and natural gas supplies and prices remained constant, with some seasonal and weather related variations, while world methanol supplies became tight due to increased demand in the MTBE market and several unplanned outages by producers, causing prices in the United States to more than triple. Nevertheless, ISP was able to obtain adequate supplies of methanol and foresees no future difficulty with respect to methanol supplies.

**Mineral Products**

*Products and Markets.* ISP manufactures mineral products consisting of ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at ISP's quarries and colored using a proprietary ceramic chemical coating process. ISP's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. ISP is the second largest of only two major suppliers of colored roofing granules in North America. ISP also markets granule by-products for use in the construction and maintenance of fast dry, clay-like tennis courts.

ISP estimates that approximately 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. Homeowners generally replace their roofs either because they are worn, thereby creating concerns as to weather-tightness, or because of the homeowners' desire to upgrade the appearance of their homes. ISP estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of ISP's colored mineral granules have benefitted from a trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which results in both functional and aesthetic improvements which require, on average, approximately 60% more granules than traditional three-tab, lightweight roofing shingles.

BMCA purchases 100% of its colored roofing granule requirements from ISP (except for the requirements of its California roofing plant which are supplied by a third party). These purchases constituted approximately one-half of ISP's mineral products net sales in 1994. Through December 31, 1993, sales to GAF Building Materials Corporation, which formerly operated BMCA's business, were made under a requirements contract which expired on that date. Since that time, BMCA continued to purchase from ISP such requirements and, effective as of January 1, 1995, BMCA and ISP renewed that agreement for one year, subject to annual renewal unless terminated by BMCA or ISP.

*Raw Materials.* ISP owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability to hold pigments. ISP owns three quarries, each with proven reserves, based on current production levels, of more than 20 years.

### Filter Products and Advanced Materials

ISP manufactures and sells filter products, consisting of pressure filter vessels, filter bags and filter systems, and sells cartridges and cartridge housings. These filter products are designed for the treatment of process liquids, with the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries accounting for approximately 85% of ISP's 1994 net sales of filter products.

ISP manufactures pressure filter vessels at manufacturing facilities in Brazil and Canada, which serve both local and international markets. ISP also manufactures filter bags in Belgium, Canada, Singapore, Brazil and the United States and supplies filter products worldwide through its subsidiaries, sales offices and distributors.

ISP manufactures a variety of advanced materials, including high-purity carbonyl iron powders, sold under ISP's trademark Micropowder®, used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food industries. Using proprietary technology, ISP manufactures more than 50 different grades of Micropowder® iron, one of which is sold under the trademark Ferronyl®, for use as a vitamin supplement.

The primary markets for ISP's Micropowder® are the domestic defense industry, which employs these products in a variety of coating systems and molded panels for stealth purposes in aircraft and naval ships, and the emerging metal injection molding segment of the powder metallurgy industry. ISP is the sole domestic manufacturer of carbonyl iron powders.

ISP manufactures a line of processless, electronically imaged film products, including RAD-SURE®, which is a radiation sensitive film strip affixed to blood bags to indicate whether or not they have been properly irradiated.

### Competition

ISP believes that it is either the first or second largest seller worldwide of most of its specialty derivative chemicals other than butanediol and tetrahydrofuran. Butanediol, which ISP produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany, Japan and Korea. Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than ISP and its principal competitor, that manufacture a limited number of ISP's other specialty derivative chemicals, the market position of these companies is much smaller than that of ISP (other than as to solvents and intermediates, with respect to which there is a significant third competitor). In addition to ISP's competition as noted above, there are other companies that produce substitutable products for a number of ISP's specialty derivative chemicals. These companies compete with ISP in the personal care, pharmaceutical, beverage, preservative and industrial markets and have the effect of limiting ISP's market penetration and pricing flexibility.

With regard to its mineral products, ISP has only one major and one smaller competitor and believes that competition has been limited by: (i) the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves; (ii) the limited availability of proven rock sources; (iii) the complexity associated with the engineering, design and construction of a mineral processing and coloring plant, together with the technical know-how required to operate such a plant; (iv) the need to obtain, prior to commencing operations, reliable data over a substantial period of time regarding the weathering of granules in order to assure the quality and durability of the product; and (v) the difficulty in obtaining the necessary permits to mine and operate a quarry.

With respect to filter products, ISP competes with a number of companies worldwide. With respect to advanced materials, ISP is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

### Research and Development

ISP's worldwide research and development expenditures were $20.3 million in 1994 and $21.2 million in 1993.

ISP's research and development department, consisting of approximately 200 persons dedicated principally to specialty derivative chemicals, is located primarily at ISP's worldwide technical center and laboratories in Wayne, New Jersey and at additional research and development laboratories in Calvert City, Kentucky, Texas City, Texas, Chatham, New Jersey, Belleville, New Jersey, Columbus, Ohio, the United Kingdom, Germany and Singapore. ISP's mineral products research and development facility, together with its customer design and color center, is located at Hagerstown, Maryland.

**Patents and Trademarks**

ISP owns approximately 406 domestic and 151 foreign patents and owns or licenses approximately 73 domestic and 716 foreign trademark registrations related to the business of ISP. ISP does not believe that any single patent, patent application or trademark is material to ISP's business or operations and believes that the duration of its existing patents and patent licenses is satisfactory.

**Environmental Services**

ISP has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. ISP estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. ISP anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor.

**Environmental Compliance**

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental matters (the "Regulations") have been adopted and amended. By reason of the nature of the operations of ISP and its predecessor and certain of the substances that are, or have been used, produced or discharged by their plants or at other locations, ISP is affected by the Regulations. ISP has made capital expenditures of less than $3.7 million in each of the last three years in order to comply with the Regulations (which expenditures are included in additions to property, plant and equipment), and anticipates that aggregate capital expenditures relating to environmental compliance in 1995 and 1996 will be at approximately the same annual levels of the prior three years.

The Regulations deal with air and water emissions or discharges into the environment, as well as the generation, storage, treatment, transportation and disposal of solid waste, and the remediation of any releases of hazardous substances to the environment. ISP believes that its manufacturing facilities comply in all material respects with applicable Regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for compliance with the Regulations will not materially affect its business, liquidity or financial position.

**Employees**

At December 31, 1994, ISP employed approximately 2,400 people worldwide. As of December 31, 1994, approximately 690 employees in the United States and Canada were subject to seven union contracts, which are effective in most cases for between two and four-year periods. During 1994, two labor contracts expired and were renegotiated.

ISP has in effect various benefit plans, which include a non-qualified retirement plan for a group of executives, a capital accumulation plan for its salaried and certain hourly employees, a flexible benefit plan for its salaried employees, a retirement plan for certain of its hourly employees, and group insurance agreements providing life, accidental death, disability, hospital, surgical, medical and dental coverage. In addition, ISP has contracted with various health maintenance organizations to provide medical benefits. ISP and, in many cases, its employees contribute to the cost of these plans.

**Item 2.** ***Properties***

The corporate headquarters and principal research and development laboratories of ISP are located at a 100-acre campus-like, office and research park owned by a subsidiary of ISP at 1361 Alps Road, Wayne, New Jersey 07470. The premises are subject to a first mortgage.

The principal domestic and foreign real properties either owned by, or leased to, ISP are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, ISP maintains sales offices and warehouses in the United States and abroad, substantially all of which are in leased premises under relatively short-term leases.

| Location | Facility | Product Line |
|---|---|---|
| DOMESTIC | | |
| Alabama | | |
| Huntsville | Plant* | Advanced Materials |
| Kentucky | | |
| Calvert City | Plant | Specialty Derivative Chemicals |
| Maryland | | |
| Hagerstown | Research Center, Design Center, Sales Office | Mineral Products |
| Missouri | | |
| Annapolis | Plant, Quarry | Mineral Products |
| New Jersey | | |
| Belleville | Plant, Sales Office, Research Center, Warehouse* | Specialty Derivative Chemicals |
| Bridgewater | Sales Office | Specialty Derivative Chemicals |
| Chatham | Plant, Sales Office, Research Center, Warehouse* | Specialty Derivative Chemicals |
| Wayne | Headquarters, Corporate Administrative Offices, Research Center | Specialty Derivative Chemicals, Filter Products and Advanced Materials |
| Ohio | | |
| Columbus | Plant, Sales Office | Specialty Derivative Chemicals |
| Pennsylvania | | |
| Blue Ridge Summit | Plant, Quarry | Mineral Products |
| Tennessee | | |
| Memphis | Plant*, Warehouse*, Distribution Center* | Filter Products |
| Texas | | |
| Seadrift | Plant | Specialty Derivative Chemicals |
| Texas City | Plant | Specialty Derivative Chemicals |
| Wisconsin | | |
| Pembine | Plant, Quarry | Mineral Products |
| INTERNATIONAL | | |
| Belgium | | |
| Sint-Niklaas | Plant, Sales Office, Distribution Center | Specialty Derivative Chemicals and Filter Products |

* Leased Property

| Location | Facility | Product Line |
|---|---|---|
| INTERNATIONAL—(Continued) | | |
| Brazil | | |
| Sao Paulo | Plant*, Sales Office*, Distribution Center* | Specialty Derivative Chemicals and Filter Products |
| Canada | | |
| Mississauga, Ontario | Plant*, Sales Office*, Distribution Center* | Specialty Derivative Chemicals and Filter Products |
| Oakville, Ontario | Plant* | Filter Products |
| Great Britain | | |
| Guildford | European Headquarters*, Research Center* | Specialty Derivative Chemicals |
| Singapore | | |
| Southpoint | Plant*, Sales Office*, Distribution Center*, Asia Pacific Headquarters*, Warehouse* | Specialty Derivative Chemicals and Filter Products |
| Affiliate: | | |
| GAF-Hüls Chemie GmbH Marl, Germany | Plant, Sales Office | Specialty Derivative Chemicals |

* Leased Property

ISP believes that its plants and facilities, which are of varying ages and are of different construction types, have been satisfactorily maintained, are in good condition, are suitable for their respective operations and generally provide sufficient capacity to meet production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1994, ISP invested $31.1 million in capital expenditures relating to plant, property and equipment.

**Item 3.** ***Legal Proceedings***

**Environmental Litigation**

ISP, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

At most sites, ISP anticipates that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on ISP's evaluation of the financial responsibility of the parties involved and their insurers, relevant legal issues and cost sharing arrangements now in place, ISP estimates that its liability in respect of all Environmental Claims, as of December 31, 1994, will be approximately $19.5 million. After a reduction for anticipated insurance recoveries (discussed below) of $7 million, ISP estimates that its net liability will be approximately $12.5 million. In the opinion of management, the resolution of such matters should not be material to the business, liquidity or financial position of ISP. However, adverse decisions or events, particularly as to the merits of ISP's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause ISP to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, ISP believes that it is probable that it will receive the anticipated insurance recoveries and it may receive insurance recoveries substantially in excess of the amounts described above. ISP believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims, although ISP's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims. On March 8, 1995, GAF commenced an action on behalf of its subsidiaries in the United States District Court for the District of New Jersey seeking a declaration of the obligations of the insurers under the policies and damages for certain costs of defense and indemnity in connection with the Environmental Claims. While ISP believes in the merits of the case, there can be no assurance that ISP will prevail in its efforts to obtain the anticipated insurance recoveries.

In June 1989, ISP entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee ISP's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. ISP believes, although there can be no assurance, that, taking into account plans for development of the site, it can comply with the NJDEP order at a cost of no more than $7.5 million (in connection with which ISP anticipates insurance recoveries of approximately $5 million). See Item 1, "—Environmental Services".

Pursuant to a Consent Order between the United States Environmental Protection Agency (the "EPA") and over 100 potentially responsible parties, including ISP, such parties have agreed to participate in the remediation of a contaminated waste disposal site in Carlstadt, New Jersey. The EPA is evaluating final remedies for the site. Total cleanup costs are unknown but ISP estimates, based on information currently available to it, that the insurance proceeds described above will cover a substantial portion of ISP's share of such costs.

The following is a list of proceedings involving environmental claims for sanctions against ISP by governmental authorities other than those which ISP reasonably believes will result in monetary sanctions (exclusive of interest and costs) of less than $100,000:

The Texas Natural Resource Conservation Commission ("TNRCC") has filed an amended administrative enforcement petition with respect to ISP's Texas City, Texas manufacturing facility seeking a civil penalty of $601,200 for alleged violations of TNRCC financial assurance requirements, a failure to complete closure of regulated waste units in accordance with closure plan schedules and improper maintenance of two waste container storage areas. ISP is currently contesting the alleged violations and, at the request of TNRCC, trial of this matter has been postponed indefinitely. Although no assurance can be given, ISP believes that the ultimate civil penalty, if any, will be substantially lower than the amount sought.

A settlement has been reached, subject to final documentation, with regard to an administrative complaint filed by the Kentucky Natural Resources and Environmental Protection Cabinet against ISP's Calvert City, Kentucky manufacturing facility, alleging violations of Kentucky air quality regulations, pursuant to which settlement ISP would pay a penalty of $195,000.

**Asbestos Litigation Against GAF**

GAF has advised ISP that, as of December 31, 1994, GAF had been named as a defendant in approximately 48,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 182,000 other lawsuits involving similar claims, and as a co-defendant in approximately 16 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1994, was approximately $458.3 million (before estimated present value of recoveries from products liability insurance policies of approximately $212.9 million and related deferred tax benefits of approximately $92.2 million). GAF and G-I Holdings have advised ISP that certain components of the asbestos-related liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1994, before estimated recoveries from products liability insurance policies, was $518 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the Settlement described below becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class by January 24, 1994) against GAF and other members of the CCR. The Settlement, if effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement. On August 16, 1994, the United States District Court in Philadelphia approved the Settlement holding that the terms of the Settlement are fair to the class as a whole. The favorable resolution of certain insurance-related litigation is a condition to the effectiveness of the Settlement. It is anticipated that at least some of those who objected to the Settlement will appeal this decision. While it is impossible to predict with certainty the outcome of any appeal, GAF has advised ISP that it believes that the decision will be affirmed.

GAF and G-I Holdings have advised ISP that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised ISP that they anticipate that substantially all the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised ISP that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither ISP nor the assets or operations of ISP, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. ISP believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but ISP cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of ISP, and such enforcement could result in a change of control of ISP.

**Item 4.** ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders in the fourth quarter of 1994.

**Executive Officers**

The following table sets forth the name, age, position and other information with respect to the executive officers of ISP and the executive officers and directors of ISP Chemicals and ISP Technologies.

| Name and Position Held(1) | Age | Present Principal Occupation or Employment and Five-Year Employment History |
|---|---|---|
| Samuel J. Heyman<br>Director, Chairman and Chief Executive Officer, International Specialty Products Inc. | 56 | Mr. Heyman has been a director, Chairman and Chief Executive Officer of ISP since its formation and Chief Executive Officer of ISP Chemicals and ISP Technologies since November 1991. Mr. Heyman has been Chairman and Chief Executive Officer of GAF, G Industries and certain of its subsidiaries since April 1989, prior to which he held the same position with GAF's predecessor (the "Predecessor Company") from December 1983 to April 1989. He has been Chairman of GCC and its predecessor since July 1984 and Chairman and a director of BMCA since its formation. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities. |
| Carl R. Eckardt<br>President and Chief Operating Officer, International Specialty Products Inc. | 64 | Mr. Eckardt has been a director of ISP since its formation and has been President and Chief Operating Officer of ISP; and Chief Operating Officer of ISP Chemicals and ISP Technologies since January 3, 1994. Mr. Eckardt was Executive Vice President—Corporate Development of ISP from its formation to January 2, 1994. Mr. Eckardt has been a director and Executive Vice President—Corporate Development of GAF since April 1989 and held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt has been an Executive Vice President of G-I Holdings since March 1993. Mr. Eckardt was President of GCC and the Predecessor Company's chemicals division from 1985 to 1987. Mr. Eckardt was a Senior Vice President—Worldwide Chemicals and Senior Vice President—International Chemicals of the Predecessor Company from 1982 to 1985 and 1981 to 1982, respectively. Mr. Eckardt joined the Predecessor Company in 1974. |
| Mark A. Buckstein<br>Executive Vice President, General Counsel and Secretary, International Specialty Products Inc. | 55 | Mr. Buckstein has been a director, Executive Vice President, General Counsel and Secretary of ISP, G-I Holdings, GAF, G Industries and certain of its subsidiaries, including ISP Chemicals and ISP Technologies, since August 1, 1993, and has been a director and Executive Vice President of BMCA since its formation. From July 1992 to April 1993, he was Executive Vice President of the American Arbitration Association. From February 1986 to June 1992, he was a director, Senior Vice President, External Affairs and General Counsel of Trans World Airlines, Inc. |

| Name and Position Held(1) | Age | Present Principal Occupation or Employment and Five-Year Employment History |
|---|---|---|
| James P. Rogers .................... Senior Vice President—Finance, International Specialty Products Inc. | 44 | Mr. Rogers has been Senior Vice President-Finance of ISP, ISP Chemicals and ISP Technologies and has been Senior Vice President and Chief Financial Officer of G-I Holdings, GAF and certain of its subsidiaries since November 1, 1993. Mr. Rogers has also served as Treasurer of G-I Holdings, GAF and certain of its subsidiaries since March 1992, was Vice President of such corporations from March 1992 to October 31, 1993 and was Treasurer of ISP, ISP Chemicals and ISP Technologies from March 1992 through December 1994. He has been a director and Senior Vice President of BMCA since its formation. From August 1987 to March 1992, Mr. Rogers was Treasurer of Amphenol Corporation, a manufacturer of electronic connectors. |
| James J. Conway .................... Senior Vice President and General Manager, Specialty Derivative Chemicals, International Specialty Products Inc. | 51 | Mr. Conway has been Senior Vice President and General Manager, Specialty Derivatives of ISP since January 1993. He has held the same position and has been a director of ISP Technologies since January 1993. From March 1991 to November 1992, he was President of the Specialty Products Group of Hoechst Celanese Corporation ("HCC"). From April 1990 to March 1991, Mr. Conway was Executive Vice President of the same business of HCC. From January 1989 to March 1991 he was Vice President and General Manager of HCC's Engineering Plastics Division of the Advanced Materials Group and from November 1986 to January 1989 he was General Manager of such division. |
| James J. Strupp ...................... Senior Vice President—Human Resources, International Specialty Products Inc. | 51 | Mr. Strupp has been Senior Vice President—Human Resources of ISP since May 1991 and Senior Vice President—Human Resources of ISP Chemicals and ISP Technologies since June 1991. From 1987 to May 1991 he was Executive Vice President and Partner with Bastion Industries. Mr. Strupp was Vice President—Human Resources of the Predecessor Company from 1984 to 1987. |
| Richard B. Olsen .................... Senior Vice President and Chief Financial Officer, International Specialty Products Inc. | 48 | Mr. Olsen has been Senior Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies since November 1993, prior to which he was Vice President—Finance and Purchasing of ISP, ISP Chemicals and ISP Technologies since June 1991. He was Vice President, Finance of GCC from April 1989 to November 1993 and held the same positions with the Predecessor Company from June 1986 to April 1989. |

(1) Under ISP's By-laws, each director and executive officer continues in office until ISP's next annual meeting of stockholders or until a successor is elected and qualified.

## PART II

**Item 5.** ***Market for Registrant's Common Equity and Related Stockholder Matters***

The information contained in the Annual Report under the heading "Market for Common Stock" is incorporated by reference herein.

**Item 6.** ***Selected Financial Data***

The information contained in the Annual Report under the heading "Selected Financial Data" is incorporated by reference herein.

**Item 7.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The information contained in the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation" is incorporated by reference herein.

**Item 8.** ***Financial Statements and Supplementary Data***

The following financial statements and supplementary data contained in the Annual Report are incorporated by reference herein.

| | Annual Report Page Number |
|---|---|
| Report of Independent Public Accountants | 38 |
| Consolidated Statements of Income for the three years ended December 31, 1994 | 20 |
| Consolidated Balance Sheets as of December 31, 1993 and 1994 | 21 |
| Consolidated Statements of Cash Flows for the three years ended December 31, 1994 | 22-23 |
| Consolidated Statements of Stockholders' Equity for the three years ended December 31, 1994 | 24 |
| Notes to Consolidated Financial Statements | 25-37 |
| Supplementary Data (Unaudited): | |
| Quarterly Financial Data (Unaudited) | 39 |

**Item 9.** ***Disagreements on Accounting and Financial Disclosure***

None.

## PART III

**Item 10.** ***Directors and Executive Officers of Registrant***

The Information relating to the directors of ISP to be contained in the Proxy Statement under the heading "Election of Directors" is incorporated by reference herein. For information related to the Executive Officers of ISP, ISP Chemicals and ISP Technologies, see "Executive Officers" in Part I of this report.

**Item 11.** ***Executive Compensation***

The information to be contained in the Proxy Statement under the headings "Compensation of Executive Officers of the Company" and "Election of Directors" is incorporated by reference herein.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management***

The information to be contained in the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference herein.

### Item 13. *Certain Relationships and Related Transactions*

The information to be contained in the Proxy Statement under the captions "Election of Directors" and "Certain Transactions" is incorporated by reference herein.

## PART IV

### Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

The following documents are filed as part of this report:

*(a)(1) Financial Statements:*

Financial statements of ISP are incorporated by reference to ISP's Annual Report to Stockholders for the fiscal year ended December 31, 1994. See list on page 12 herein.

*(a)(2) Financial Statement Schedules:*

The following supplementary financial information is filed in this Form 10-K and should be read in conjunction with the financial statements in the Annual Report.

| | Page Number in this Form 10-K |
|---|---|
| INTERNATIONAL SPECIAL PRODUCTS INC. | |
| Report of Independent Public Accountants on Schedules for the years ended December 31, 1992, 1993 and 1994 | S-1 |
| Consolidated Financial Statement Schedules: | |
| Schedule II—Valuation and Qualifying Accounts | S-2 |
| Supplementary Financial Information—Guarantor Financial Data | S-3—S-6 |

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

*(a)(3) Exhibits*

(a) The following documents are filed as part of this report:

3.1 —Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, registration number 33-40337 (the "Company Stock Registration Statement")).

3.2 —By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).

3.3 —Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, registration number 33-44862 (the "9% Note Registration Statement")).

3.4 —By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).

3.5 —Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).

3.6 —By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).

4 —Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).

10.1 —Management Agreement, dated as of March 3, 1992 ("Management Agreement"), among GAF, G-I Holdings, G Industries, ISP, GAF Building Materials Corporation and GAF Broadcasting (incorporated by reference to Exhibit 10.5 to ISP's Form 10-K for the year ended December 31, 1993).

10.2 —Amendment No. 1 dated as of January 1, 1994 to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Form 10-K for the year ended December 31, 1993).

10.3 —Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Form 10-Q for the quarter ended July 3, 1994).

10.4 —Amendment No. 3 to the Management Agreement dated as of December 31, 1994.

10.5 —Amended and Restated Tax Sharing Agreement, dated as of March 3, 1992, among GAF Corporation, G Industries Corp., ISP and certain subsidiaries of ISP, and Amendment Agreement No. 1 to the Tax Sharing Agreement dated as of July 23, 1992 (incorporated by reference to Exhibit 10.3 to ISP's Form 10-Q for the quarter ended October 2, 1994).

10.6 —Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to ISP's Registration Statement on Form S-1, Registration No. 33-40337).*

10.7 —ISP Amended and Restated 1991 Incentive Plan for Key Employees (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-4 of G-I Holdings (Registration No. 33-72220) (the "Discount Notes Registration Statement").*

10.8 —Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt. (incorporated by reference to Exhibit 10.16 to the Discount Notes Registration Statement).*

10.9 —Agreement dated October 5, 1992 between James J. Conway and International Specialty Products Inc.*

10.10—Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).

10.11—Form of Assignment and Assumption Agreement between G Industries and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement).

10.12—Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement).

10.13—Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement).

10.14—Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement).

10.15—Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement).

10.16—Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement).

13 —Annual Report to Stockholders for the year ended December 31, 1994, which except for the portions thereof which are expressly incorporated by reference herein, is furnished for the information of the Commission and shall not be deemed filed.

21 —Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.

23 —Consent of Arthur Andersen LLP.

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* Management and/or compensation plan or arrangement.

*(b) Reports on Form 8-K*

No reports on Form 8-K were filed in the fourth quarter of 1994.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By ______________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chairman of the Board of Directors and Chief Executive Officer |
| Carl R. Eckardt | President and Chief Operating Officer; Director |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Harrison J. Goldin | Director |
| Charles M. Diker | Director |
| Sanford Kaplan | Director |
| Burt Manning | Director |
| Jonathan H. Stern | Vice President and Controller (Principal Accounting Officer) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By ______________________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chairman of the Board of Directors and Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer; Director |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Harrison J. Goldin** | Director |
| **Charles M. Diker** | Director |
| **Sanford Kaplan** | Director |
| **Burt Manning** | Director |
| **Jonathan H. Stern** | Vice President and Controller (Principal Accounting Officer) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By ______________________________

**Mark A. Beckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chairman of the Board of Directors and Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer; Director |
| **Mark A. Beckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Harrison J. Goldin** | Director |
| Charles Diker<br>**Charles M. Diker** | Director |
| **Sanford Kaplan** | Director |
| **Burt Manning** | Director |
| **Jonathan H. Stern** | Vice President and Controller (Principal Accounting Officer) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By ______________________________
**Mark A. Bockstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chairman of the Board of Directors and Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer; Director |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Harrison J. Goldin** | Director |
| **Charles M. Diker** | Director |
| Sanford Kaplan<br>**Sanford Kaplan** | Director |
| **Burt Manning** | Director |
| **Jonathan H. Stern** | Vice President and Controller (Principal Accounting Officer) |



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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By ______________________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chairman of the Board of Directors and Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer; Director |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Harrison J. Goldin** | Director |
| **Charles M. Diker** | Director |
| **Sanford Kaplan** | Director |
| Burt Manning<br>**Burt Manning** | Director |
| **Jonathan H. Stern** | Vice President and Controller (Principal Accounting Officer) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP CHEMICALS INC.

By ______________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March, 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | President and Chief Operating Officer |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP TECHNOLOGIES INC.

By ______________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | Chief Operating Officer |
| **James J. Conway** | President and Director |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP (PUERTO RICO) INC.

By ______________________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | Chief Operating Officer |
| James M. Potter | President and Director |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP ENVIRONMENTAL SERVICES INC.

By ____________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | President and Chief Operating Officer; Director |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP FILTERS INC.

By ______________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP GLOBAL TECHNOLOGIES INC.

By ______________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | Chief Operating Officer |
| **William H. Baum** | President and Director |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP INTERNATIONAL CORP.

By ______________________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | Chief Operating Officer |
| William H. Baum | President and Director |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP INVESTMENTS INC.

By ______________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | Chief Operating Officer |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MANAGEMENT COMPANY, INC.

By ______________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | President and Chief Operating Officer; Director |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Vice President and Controller (Principal Accounting Officer) |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MINERAL PRODUCTS INC.

By ______________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | Chief Operating Officer |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP MINERALS INC.

By ______________________
**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | Chief Operating Officer |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP REAL ESTATE COMPANY, INC.

By ______________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ISP REALTY CORPORATION

By ______________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERONA INC.

By ______________________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| **Samuel J. Heyman** | Chief Executive Officer |
| **Carl R. Eckardt** | President and Chief Operating Officer |
| **Mark A. Buckstein** | Executive Vice President, General Counsel and Secretary; Director |
| **Richard B. Olsen** | Senior Vice President and Chief Financial Officer |
| **Jonathan H. Stern** | Principal Accounting Officer |



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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLUEHALL CORPORATION

By ______________________________

**Mark A. Buckstein**
**Executive Vice President,**
**General Counsel and Secretary**

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1995, by the following persons in the capacities indicated.

| Signature | Title |
|---|---|
| Samuel J. Heyman | Chief Executive Officer |
| Carl R. Eckardt | President and Chief Operating Officer |
| Mark A. Buckstein | Executive Vice President, General Counsel and Secretary; Director |
| Richard B. Olsen | Senior Vice President and Chief Financial Officer |
| Jonathan H. Stern | Principal Accounting Officer |

# ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

To International Specialty Products Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements included in International Specialty Products Inc.'s annual report to stockholders and incorporated by reference in this Form 10-K and have issued our report thereon dated March 13, 1995. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule and supplementary financial information listed in the index on page 13 of this Form 10-K are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. This schedule and the supplementary financial information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Roseland, New Jersey
March 13, 1995

# INTERNATIONAL SPECIALTY PRODUCTS INC.

## VALUATION AND QUALIFYING ACCOUNTS

### Year Ended December 31, 1994
### (Thousands)

| Description | Balance January 1, 1994 | Charged to Costs and Expenses | Deductions | Balance December 31, 1994 |
|---|---|---|---|---|
| Valuation and Qualifying Accounts Deducted from Assets to Which They Apply: | | | | |
| Allowance for doubtful accounts | $2,313 | $ 325 | $ 346(a) | $2,292 |
| Reserve for inventory market valuation | 8,991 | 7,052 | 6,412 | 9,631 |

### Year Ended December 31, 1993
### (Thousands)

| Description | Balance January 1, 1993 | Charged to Costs and Expenses | Deductions | Balance December 31, 1993 |
|---|---|---|---|---|
| Valuation and Qualifying Accounts Deducted from Assets to Which They Apply: | | | | |
| Allowance for doubtful accounts | $2,105 | $ 392 | $ 184(a) | $2,313 |
| Reserve for inventory market valuation | 5,872 | 5,142 | 2,023 | 8,991 |

### Year Ended December 31, 1992
### (Thousands)

| Description | Balance January 1, 1992 | Charged to Costs and Expenses | Deductions | Balance December 31, 1992 |
|---|---|---|---|---|
| Valuation and Qualifying Accounts Deducted from Assets to Which They Apply: | | | | |
| Allowance for doubtful accounts | $2,221 | $ 311 | $ 427(a) | $2,105 |
| Reserve for inventory market valuation | 3,389 | 3,748 | 1,265 | 5,872 |

Note:
(a) Represents write-offs of uncollectible accounts net of recoveries.

## INTERNATIONAL SPECIALTY PRODUCTS INC.

## SUPPLEMENTARY FINANCIAL INFORMATION

### GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors)

The 9% Senior Notes discussed in Note 7 to Consolidated Financial Statements contained in the Annual Report were issued by ISP Chemicals Inc. and ISP Technologies Inc., domestic subsidiaries of the Company (the "Issuers"), and are guaranteed by the Company and all of its domestic subsidiaries (the "Subsidiary Guarantors"). Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and with their subsidiaries constitute all of the domestic subsidiaries of the Company. This financial information should be read in conjunction with the Company's consolidated financial statements and related notes included in the Annual Report. Financial information for the Company's foreign subsidiaries, including its investment in GAF-Hüls, is reflected in the following financial information by the equity method of accounting.

### COMBINED CONDENSED STATEMENTS OF INCOME

**For the Issuers and the Subsidiary Guarantors**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| | | (Millions) | |
| Net sales | $441.6 | $400.4 | $423.0 |
| Costs and expenses: | | | |
| Cost of products sold | 309.9 | 276.0 | 274.4 |
| Selling, general and administrative | 77.0 | 83.6 | 82.8 |
| Provision for restructuring | — | 7.6 | — |
| Goodwill amortization | 13.4 | 13.9 | 13.7 |
| Total costs and expenses | 400.3 | 381.1 | 370.9 |
| Operating income | 41.3 | 19.3 | 52.1 |
| Interest expense | (28.6) | (24.4) | (30.1) |
| Equity in income from foreign subsidiaries and 50% owned joint venture | 39.4 | 31.0 | 41.3 |
| Other income, net | 14.3 | 20.9 | 15.7 |
| Income before income taxes, extraordinary item and cumulative effect of accounting change | 66.4 | 46.8 | 79.0 |
| Income taxes | (20.7) | (17.2) | (21.8) |
| Income before extraordinary item and cumulative effect of accounting change | 45.7 | 29.6 | 57.2 |
| Extraordinary item, net of related income tax benefit | (1.2) | — | — |
| Cumulative effect of change in accounting for postretirement benefits other than pensions, net of related income tax benefit | — | — | (7.1) |
| Net income | $ 44.5 | $ 29.6 | $ 50.1 |

## INTERNATIONAL SPECIALTY PRODUCTS INC.

## SUPPLEMENTARY FINANCIAL INFORMATION

### GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors) (Continued)

### COMBINED CONDENSED BALANCE SHEETS

**For the Issuers and the Subsidiary Guarantors**

| | December 31, 1994 | December 31, 1993 |
|---|---|---|
| | (Millions) | |
| **ASSETS** | | |
| Current Assets: | | |
| Cash and investments in trading securities | $ 52.6 | $ 72.8 |
| Investments in available-for-sale securities | 14.6 | — |
| Accounts receivable, net | 9.0 | 3.4 |
| Inventories | 73.7 | 71.3 |
| Other current assets | 9.8 | 12.5 |
| Total Current Assets | 159.7 | 160.0 |
| Property, plant and equipment, net | 451.5 | 449.9 |
| Excess of cost over net assets of businesses acquired, net | 443.7 | 457.1 |
| Advances to and equity in investment in foreign subsidiaries and 50% owned joint venture | 134.4 | 123.9 |
| Other assets | 29.7 | 24.2 |
| Total Assets | $1,219.0 | $1,215.1 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Short-term debt | $ — | $ 12.7 |
| Current maturities of long-term debt | 0.9 | 0.7 |
| Loan payable to related party | 41.3 | 66.8 |
| Accounts payable | 32.6 | 26.0 |
| Accrued liabilities | 36.5 | 37.0 |
| Payable to related parties, net | 3.3 | 3.6 |
| Total Current Liabilities | 114.6 | 146.8 |
| Long-term debt less current maturities | 285.4 | 367.7 |
| Long-term note payable to related party | 91.7 | — |
| Deferred income taxes | 73.0 | 92.5 |
| Other liabilities | 71.9 | 74.1 |
| Stockholders' Equity | 582.4 | 534.0 |
| Total Liabilities and Stockholders' Equity | $1,219.0 | $1,215.1 |

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors) (Continued)

COMBINED CONDENSED STATEMENTS OF CASH FLOWS

For the Issuers and the Subsidiary Guarantors

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| | | (Millions) | |
| Cash and cash equivalents, beginning of year | $72.8 | $ 70.7 | $ 0.1 |
| Cash provided by operating activities: | | | |
| Net income | 44.5 | 29.6 | 50.1 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 30.6 | 26.8 | 23.9 |
| Goodwill amortization | 13.4 | 13.9 | 13.7 |
| Cumulative effect of accounting change | — | — | 7.1 |
| Provision for restructuring | — | 7.6 | — |
| Deferred income taxes | (16.5) | (13.2) | 6.8 |
| (Increase) decrease in working capital items | (0.6) | (5.6) | (7.4) |
| Change in advances to and equity in investment in foreign subsidiaries and 50% owned joint venture | (10.5) | 10.7 | (11.7) |
| (Increase) decrease in net receivable from/payable to related parties | (0.2) | 10.2 | (3.0) |
| Change in cumulative translation adjustment | 8.3 | (6.3) | (10.2) |
| Other, net | (8.3) | 4.4 | (6.4) |
| Net cash provided by operating activities | 60.7 | 78.1 | 62.9 |
| Cash used in investing activities: | | | |
| Capital expenditures and acquisitions | (29.2) | (54.0) | (61.4) |
| Designation of securities as available-for-sale | (16.3) | — | — |
| Net cash used in investing activities | (45.5) | (54.0) | (61.4) |
| Cash provided by (used in) financing activities: | | | |
| Proceeds (repayments) from sale of accounts receivable | (1.1) | 24.3 | — |
| Proceeds from termination of interest rate swap agreements | — | 25.1 | — |
| Increase (decrease) in short-term debt | (12.8) | 12.7 | — |
| Increase (decrease) in long-term debt, net | (83.0) | (125.8) | 60.5 |
| Increase in loans from related party | 66.3 | 46.3 | 20.5 |
| Financing fees and expenses | (0.4) | (0.2) | (6.9) |
| Dividends | (5.0) | (5.0) | (5.0) |
| Repurchases of common stock | (0.3) | — | — |
| Other, net | 0.9 | 0.6 | — |
| Net cash provided by (used in) financing activities | (35.4) | (22.0) | 69.1 |
| Net change in cash and cash equivalents | (20.2) | 2.1 | 70.6 |
| Cash and cash equivalents, end of year | $52.6 | $ 72.8 | $70.7 |

**GUARANTOR FINANCIAL DATA (for the Issuers and the Subsidiary Guarantors) (Continued)**

The advances to and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the net assets and operating results, respectively, of the Company's wholly owned foreign subsidiaries and its 50% owned joint venture, GAF-Hüls. Domestic operating income includes $32.1, $25 and $24.1 million of profits on sales made by the Company's domestic subsidiaries to its foreign-based subsidiaries for 1994, 1993 and 1992, respectively. Profits earned on sales to the foreign-based subsidiaries which were included in the foreign-based subsidiaries' inventories at the end of each period have been eliminated from domestic operating income and from advances to and equity in investment in foreign subsidiaries.

Dividends received from foreign-based subsidiaries and GAF-Hüls aggregated $59.8, $43.9 and $36.1 million for 1994, 1993 and 1992, respectively.

## EXHIBIT INDEX

| Exhibits | Description | Page |
|---|---|---|
| 3.1 | —Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, registration number 33-40337 (the "Company Stock Registration Statement")). | |
| 3.2 | —By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement). | |
| 3.3 | —Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, registration number 33-44862 (the "9% Note Registration Statement")). | |
| 3.4 | —By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement). | |
| 3.5 | —Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement). | |
| 3.6 | —By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement). | |
| 4 | —Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement). | |
| 10.1 | —Management Agreement, dated as of March 3, 1992 ("Management Agreement"), among GAF, G-I Holdings, G Industries, ISP, GAF Building Materials Corporation and GAF Broadcasting (incorporated by reference to Exhibit 10.5 to ISP's Form 10-K for the year ended December 31, 1993). | |
| 10.2 | —Amendment No. 1 dated as of January 1, 1994 to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Form 10-K for the year ended December 31, 1993). | |
| 10.3 | —Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Form 10-Q for the quarter ended July 3, 1994). | |
| 10.4 | —Amendment No. 3 to the Management Agreement dated as of December 31, 1994. | |
| 10.5 | —Amended and Restated Tax Sharing Agreement, dated as of March 3, 1992, among GAF Corporation, G Industries Corp., ISP and certain subsidiaries of ISP, and Amendment Agreement No. 1 to the Tax Sharing Agreement dated as of July 23, 1992 (incorporated by reference to Exhibit 10.3 to ISP's Form 10-Q for the quarter ended October 2, 1994). | |
| 10.6 | —Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to ISP's Registration Statement on Form S-1, Registration No. 33-40337).* | |
| 10.7 | —ISP Amended and Restated 1991 Incentive Plan for Key Employees (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-4 of G-I Holdings (Registration No. 33-72220) (the "Discount Notes Registration Statement").* | |
| 10.8 | —Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt, (incorporated by reference to Exhibit 10.16 to the Discount Notes Registration Statement).* | |
| 10.9 | —Agreement dated October 5, 1992 between James J. Conway and International Specialty Products Inc.* | |
| 10.10 | —Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement). | |
| 10.11 | —Form of Assignment and Assumption Agreement between G Industries and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement). | |

| Exhibits | Description | Page |
|---|---|---|
| 10.12 | —Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement). | |
| 10.13 | —Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement). | |
| 10.14 | —Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement). | |
| 10.15 | —Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement). | |
| 10.16 | —Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement). | |
| 13 | —Annual Report to Stockholders for the year ended December 31, 1994, which except for the portions thereof which are expressly incorporated by reference herein, is furnished for the information of the Commission and shall not be deemed filed. | |
| 21 | —Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries. | |
| 23 | —Consent of Arthur Andersen LLP. | |

* Management and/or compensation plan or arrangement.

EXHIBIT 10.4

AMENDMENT

AMENDMENT No. 3, dated as of December 31, 1994, to AMENDED AND RESTATED MANAGEMENT AGREEMENT dated as of March 3, 1992 (the "Agreement"), as previously amended by Amendments dated as of January 1, 1994 and May 31, 1994, among GAF Building Materials Corporation ("Building Materials"), GAF Broadcasting Company, Inc. ("Broadcasting"), GAF Corporation ("GAF"), G-I Holdings Inc. ("Holdings"), G Industries Corp. ("Industries"), Merick Inc. ("Merick"), GAF Chemicals Corporation ("Chemicals"), Building Materials Corporation of America, as assignee of Building Materials ("BMCA"), and International Specialty Products Inc. (the "Company"), all of which are Delaware corporations.

WHEREAS, in accordance with Section 8 of the Agreement, the parties have agreed to increase the management fees payable by BMCA, Broadcasting, Holdings and Chemicals to the Company under the Agreement, effective January 1, 1995, in order to reflect increased costs to the Company of providing services thereunder;

WHEREAS, the parties desire to extend the term of the Agreement;

NOW, THEREFORE, the parties hereby amend the Agreement as follows:

1. Section 1 of the Agreement is hereby amended to extend the Term until December 31, 1995.

2. Section 3 of the Agreement is amended, effective January 1, 1995, to read in its entirety as follows:

> "In consideration of the Company providing Services hereunder, each of the corporations listed below shall pay to the Company a management fee (the "Management Fee") at the following respective annual rates: BMCA- $3,601,520; Holdings- $520,000; Chemicals- $260,000; and Broadcasting- $145,736. The Management Fee shall be payable quarterly in arrears."

3. In all other respects, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

GAF BROADCASTING COMPANY, INC.

By:____________________
Name: Randall D. Bongarten
Title: President, General Manager

BUILDING MATERIALS CORPORATION OF AMERICA

By:____________________
Name: John M. Sergey
Title: President and Chief Executive Officer

GAF CORPORATION
G-I HOLDINGS INC.
G INDUSTRIES CORP.
MERICK INC.
GAF CHEMICALS CORPORATION
GAF BUILDING MATERIALS CORPORATION

By:____________________
Name: Mark A. Buckstein
Title: Executive Vice President and General Counsel

INTERNATIONAL SPECIALTY PRODUCTS INC.

By:____________________
Name: Carl R. Eckardt
Title: President and Chief Operating Officer

amt.ma3

EXHIBIT 10.9

ISP

INTERNATIONAL SPECIALTY PRODUCTS
1361 Alps Road Wayne NJ 07470

THOMAS C. BOHRER
President

Tel: (201) 628-3390
Fax: (201) 628-3992

October 5, 1992

James J. Conway
2100 Sutton Spring Road
Charlotte, NC 28226

Dear Jim:

I am pleased to confirm our offer and (with your countersignature to this letter) your acceptance of the position of Senior Vice President, Specialty Derivatives, of International Specialty Products Inc. ("ISP"), reporting to me. This offer is contingent upon approval of your appointment and this Agreement by the ISP Board of Directors. Mr. Samuel J. Heyman will recommend to the Board that your appointment and this Agreement be approved.

The details of our understanding are as follows:

1. Base Salary. Your initial base salary will be $210,000 per year, which is a monthly rate of $17,500. Your salary will be reviewed on an annual basis.

2. Incentive Compensation. You will be eligible to participate in ISP's Executive Incentive Compensation ("EIC") program. You will be paid EIC at the same time as EIC is paid to other participants in the ISP EIC program. With respect to EIC:

(a) For 1992, you will receive a pro rata portion of an annual award of $87,187. Thus, and as an example, if you commence your employment with ISP on November 1, 1992, your EIC for 1992 will be up to $14,600. However, if you receive a full 1992 bonus from your current employer, ISP will have no bonus commitment to you for 1992. Later commencement of employment will result in a proportionate downward adjustment of the pro rata amount.

(b) For 1993, you will have an opportunity to earn an EIC award of up to 90% of your base salary, with a guaranteed EIC of $50,000.

(c) For years 1994 and thereafter, your EIC will be based on your performance, as well as the performance of ISP.

3. Stock Options. Samuel J. Heyman will recommend to the Compensation and Pension Committee of the Board of Directors (the "Committee") that:

(a) At the first meeting of the Committee after the commencement of your employment, you be granted non-qualified options to purchase 50,000 shares of ISP's common stock under the terms of the ISP 1991 Incentive Plan for Key Employees (the "Plan"). A copy of the Plan as currently in effect is attached to this Agreement. Thereafter, you will be eligible for additional awards under the Plan, but there is no guarantee that you will be awarded options in any given year.

(b) The options granted to you pursuant to Section 3(a) above will be exercisable for nine years from their date of grant.

4. Pension. Subject to clauses (b)(ii) and (d) below, you will be eligible to receive from ISP an annual pension benefit (the "Pension") of up to $100,000 per year and if you die while receiving a pension and leaving a surviving spouse, your spouse will be entitled to receive for her life an annual payment equal to 100% of the portion of the Pension that you were receiving immediately prior to your death. Your right to receive the pension; the amount of the Pension to which you will be entitled; and the method of payment of the Pension are as follows:

(a) Subject to clauses (b)-(d) below, the Pension will vest in accordance with the following schedule:

| Date | Amount Vested on Such Date |
|---|---|
| September 15, 1998 | $ 50,000 |
| September 15, 1999 | 60,000 |
| September 15, 2000 | 70,000 |
| September 15, 2001 | 80,000 |
| September 15, 2002 | 90,000 |
| September 15, 2003 | 100,000 |

(b) Notwithstanding clause (a) above:

(i) Should you, at any time prior to September 15, 1998, die, become permanently disabled (such disability to be determined in accordance with then existing policy), or otherwise leave the employ of ISP for any reason, no pension will be payable to you, your spouse or your estate, as the case may be.

(ii) Should you die after September 15, 1998, but prior to the termination of your employment with ISP, and if you die leaving a surviving spouse, your spouse will be entitled to receive for her life an annual payment of the portion of the Pension in which you were vested on the date of your death.

(c) Notwithstanding clause (a) above, in the event, on or after September 15, 1998, during your employment with ISP you are permanently disabled (such disability to be determined in accordance with then existing policy), you will be entitled to receive payment of the portion of the Pension in which you are vested at the date of such permanent disability on the first day of the month following the month in which such permanent disability occurs.

(d) Notwithstanding clause (a) above, if your employment with ISP is terminated for cause after September 15, 1998, ISP in its sole discretion may declare all or any portion (whether vested or unvested) of the Pension forfeited. For purposes of this Agreement, "cause" will mean (x) your conviction of a crime involving moral turpitude or (y) in carrying out your duties on behalf of ISP, your commission of an act of willful or gross misconduct.

(e) Amounts due to you and/or your spouse under this Section 4 will be paid to you, in the sole discretion of ISP, in annual, semi-annual, quarterly or monthly installments commencing on the first day of the month following the month in which your employment with ISP terminates.

(f) You understand that ISP will have no obligation to fund the Pension in order to make any payments under it.

5. <u>Medical, Dental and Life Insurance</u>. For all periods during your employment with ISP during which you are currently covered by or eligible to participate (~~whether with or~~ without cost to you) in medical, dental, group life insurance and retiree medical, dental or group life insurance plans and/or

10/7/92

10/2/92

programs maintained by Hoechst Celanese Corporation (hereinafter "HCC") you agree to be covered by such HCC plans and/or programs and you will waive your right to participate in such plans and/or programs maintained by ISP. For any periods during which you are not currently eligible to participate in any such plans and/or programs maintained by HCC, you will be eligible to participate in ISP medical, dental and group life insurance and retiree medical, dental and group life insurance plans and/or programs in the same manner and to the same extent as other ISP executives.

6. Other ISP Benefit Plans. You will be eligible to participate in all other ISP benefit plans, including long-term disability, business travel accident, and the GAF Corporation Capital Accumulation Plan ("GAFCAP"), in the same manner and to the same extent as other ISP executives.

7. Relocation. Within eighteen months after the first day of your employment by ISP, you will relocate your principal residence to a location in New Jersey within 35 miles of 1361 Alps Road, Wayne, New Jersey. ISP will reimburse you for the following reasonable out-of-pocket expenses you incur in connection with such relocation: legal fees; a real estate commission of not in excess of 6% in connection with the sale of your current residence in Charlotte, North Carolina; mortgage application, survey, appraisal and similar fees; up to 3 "points" in connection with the securing of a mortgage for any new residence; moving expenses (of a moving company selected by ISP); and other incidental costs of such relocation. In addition, to the extent that, in selling your Charlotte, North Carolina residence, you receive less than the purchase price ~~appraised value~~ for that residence, (as determined by two independent appraisers - one your choice, one ISP's choice) upon presentation of documentation of such loss reasonably satisfactory to ISP, ISP will reimburse you for up to $75,000 of such loss. To the extent that any expense or other payment pursuant to this paragraph 7 is not deductible by you on your tax return, ISP will fully gross up any payments made to you in order that you will have no tax liability for such expense or payment.

JP 10/7/92
WB 10/12/92

8. Bridge Loan. In the event you have not closed the sale of your Charlotte, North Carolina residence by the date on which you close the purchase of your New Jersey residence, ISP will lend to you, at ISP's cost of borrowing money, up to $350,000 to enable you to close the purchase of your New Jersey residence (the "Bridge Loan"). The Bridge Loan will be payable, together with the interest on it, at the earlier of six months from the closing date of your New Jersey home or the day after ~~the date on which~~ you close the sale of your Charlotte, North Carolina residence.



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In the event at the end of such six-month period, you have not closed the sale of your Charlotte, North Carolina residence, you will have the right to extend the Bridge Loan, on a month-to-month basis, until the earlier of 12 months from the closing date of your New Jersey residence or the date on which you close the sale of your Charlotte, North Carolina residence. In no event will the Bridge Loan extend beyond 12 months from the date you close the purchase of your New Jersey residence.

9. Temporary Living Expenses. ISP will provide you with up to $3,000 per month for temporary living expenses, trips home and other related costs for a period not to exceed eighteen (18) months from your date of hire.

10. Company Automobile. ISP will provide you with a leased automobile for your business and personal use in accordance with company policy and Internal Revenue Service regulations.

11. Vacation. You will be entitled to four weeks of paid vacation per year.

12. Business Travel. Within the United States, all business travel by air will be coach class. Overseas business travel will generally be business class, except that you may travel first class on trips to Asia, Australia and other countries within the Pacific rim.

13. Involuntary Termination Other Than For Cause. In the event your employment with ISP is terminated involuntarily at any time other than for cause, ISP will continue to pay you your then base salary, on a semi-monthly basis, from the last date of your employment until the last day of the applicable severance period (the "Severance Period"):

| Termination Date | Severance Period |
|---|---|
| On or before November 15, 1993 | Twelve months |
| After November 15, 1993 | Period then applicable to ISP executive officers generally |

If at any time during the Severance Period you accept new employment at a base salary equal to or higher than your base salary on the date of termination of your employment by ISP, the payments pursuant to this Section 13 will cease at the effective date of such new employment. If at any time during the Severance Period you accept new employment at a base salary less than that in effect on the date of the termination of your employment by ISP, the payments pursuant to this Section 13 will be reduced by that amount. If you are not eligible to participate in HCC's medical and dental plans during all or any part of the Severance Period, you will be eligible to participate in ISP's medical and dental plans under the same terms as applicable to active employees of ISP unless you commence new employment during the Severance Period, in which event such eligibility will terminate on the first day of such new employment; however, during the Severance Period you will no longer be eligible to participate in GAFCAP and ISP will not provide, and you will not be eligible for, life insurance, long term disability, business travel accident or any other insurance or to participate in any other benefit plans that ISP provides or makes available to its employees.

14. ~~Noncompetition. You acknowledge that, as an ISP executive, you will have access to confidential business and technical information, including but not limited to trade secrets and proprietary know-how, of ISP. In consideration of the obligations undertaken by ISP in this Agreement, you agree that, for a period of three years after termination for any reason of your employment with ISP (the "Noncompete Period"), without ISP's prior written consent you will not compete, either individually or as a principal or an employee of any entity, with ISP anywhere in the world. In the event you do engage in competition with ISP during the Noncompete Period without ISP's prior written consent, ISP may, in its sole discretion, and in addition to any other remedies it may have at law or in equity, terminate any further obligation to make any payment or reimbursement contemplated by this Agreement.~~

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15. Commencement of Employment. You agree to use your best efforts to commence your employment with ISP on or before November 9, 1992; however, in no event will you commence your employment with ISP any later than November 16, 1992.

16. No Contract of Employment. You acknowledge that nothing in this Agreement creates any obligation on the part of ISP to continue to employ you in any capacity; rather, you are an employee at will and your employment by ISP may be terminated at any time with or without cause, provided, however, that following such termination ISP will remain responsible for any obligations ISP has assumed in this Agreement as a result of the termination of your employment.

I am excited that you will be joining the organization. We are confident that you will play a key hands-on leadership role and will make an invaluable contribution to ISP's future success.

Sincerely,

Thomas C. Bohrer

Thomas C. Bohrer

AGREED AND ACCEPTED:

James J. Conway

James J. Conway

Enc.

/Conway

EXHIBIT 13

# 1994 ANNUAL REPORT

ISP

# About The Company

International Specialty Products is one of the world's premier specialty chemicals companies. The Company has approximately 2,400 employees at more than 70 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in 89 countries.

The Company manufactures four major groups of products – specialty derivative chemicals, mineral granules, filter products and advanced materials – holding a significant market share in each of these principal product groups.

ISP produces more than 300 specialty derivative chemicals, which have a broad range of applications, encompassing such markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty derivative chemicals by establishing and maintaining long-term relationships with its customers and working closely with them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

The Company manufactures filter products, consisting of pressure filter vessels, filter bags and filter systems designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries.

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders which are used in a variety of advanced technology applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical and food and beverage industries.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

# Financial Highlights

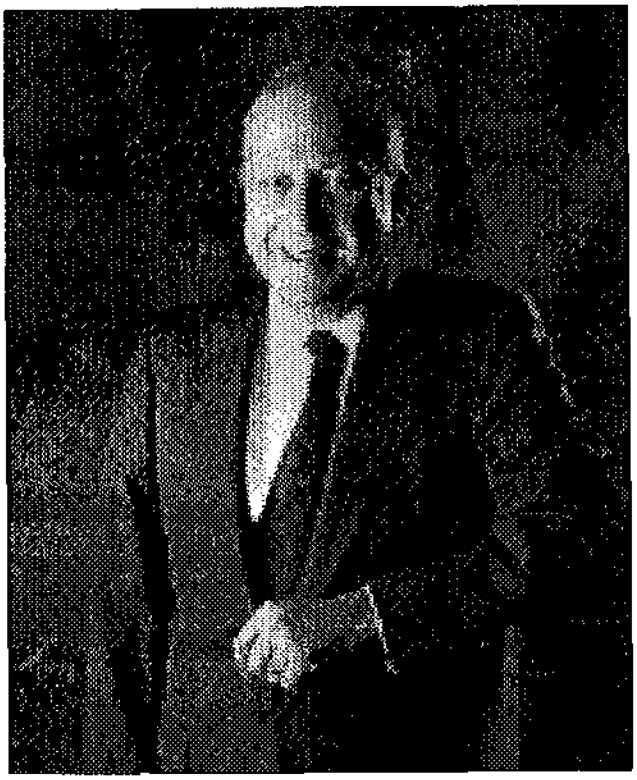
| *(Thousands, except per share amounts)* | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | **$ 600,047** | $ 548,252 | $ 570,757 |
| Operating income | **$ 99,245** | $ 65,091 | $ 107,664 |
| EBITDA (1) | **$ 147,313** | $ 116,916 | $ 155,693 |
| Income before income taxes, extraordinary item and cumulative effect of accounting change | **$ 72,484** | $ 49,823 | $ 85,782 |
| Income before extraordinary item and cumulative effect of accounting change | **$ 45,752** | $ 29,558 | $ 57,182 |
| Net income | **$ 44,515** | $ 29,558 | $ 50,113 |
| Earnings per common share: Income before extraordinary item and cumulative effect of accounting change | **$ .46** | $ .30 | $ .57 |
| Net income | **$ .45** | $ .30 | $ .50 |

(1) EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization.

## Contents

**Fellow Shareholders:**

1994 was a significant turnaround year for ISP, one in which the Company not only increased its operating income by more than 25% compared with 1993 but began to register more consistent quarterly operating results, with four consecutive quarters of increased year-to-year operating income. More importantly, as a result of a significantly improved managerial performance at all levels of the Corporation, as well as favorable industry trends affecting a number of the Company's businesses, ISP entered 1995 with considerable forward momentum, thereby enabling us to look forward, barring unforeseen events, to continued double-digit increases this year in operating income and earnings per share, and quite possibly in sales as well.



Samuel J. Heyman

### 1994 Financial Results

For the 12-month period ended December 31, 1994, income, before extraordinary charges of $1.2 million (one cent per share) relating to the refinancing of the Company's bank debt, was $45.8 million (46 cents per share) compared with $29.6 million (30 cents per share) in 1993.

1994 operating income was $99.2 million, an increase of more than 25% over 1993's $78.9 million (prior to a $13.8 million charge) with sales for the year reaching $600 million, a 9.4% increase over sales of $548.3 million in 1993. Higher 1994 results were attributable to increased sales, especially with respect to specialty derivative products, and lower selling, general, and administrative expenses, partially offset by lower gross profit margins due principally to sharply escalating raw materials costs in the fourth quarter.

Operating income in both 1994 and 1993 was reduced by noncash charges of $21.9 million and $22.4 million, respectively, resulting from goodwill amortization ($13.4 million in 1994 and $13.9 million in 1993) and stepped-up depreciation ($8.5 million in both periods), associated with the acquisition of the Company's parent, GAF Corporation, in a 1989 management-led buyout. Without such noncash charges, operating income would have been $121.1 million and $101.3 million for 1994 and 1993 (prior to the $13.8 million charge), respectively.

Given the magnitude of the Company's noncash charges, we are presenting for the first time in this Annual Report EBITDA (EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization) data on a current and historical basis, which we believe serves as a helpful tool for investors in assessing ISP's financial performance. In this connection, EBITDA for 1994 was $147.3 million compared with $130.7 million in the prior year (prior to the $13.8 million charge).

### Significant Developments

There were a number of developments this past year which not only contributed to the Company's improved performance but promise to play a meaningful role in what we expect will be an even better year in 1995: a marked improvement in competitive conditions in the intermediates and solvents business; increased geographic penetration of ISP's specialty derivatives business around the world; an aggressive new product and application development program which enabled ISP last year to come to market with more than thirty new products and applications; continued cost containment efforts with particular emphasis this past year on process improvements and other manufacturing cost reductions; and the strengthened financial position of the Company as a result of the refinancing of ISP's $400 million revolving credit facility on more attractive terms, together with the continued reduction of both the Company's total debt and its ratio of net debt-to-total-capitalization (now less than 37%).

***(1) Improved Competitive Conditions For Intermediates and Solvents Business***

1994 marked a dramatic improvement in the severe competitive conditions which have adversely affected the Company's intermediates and solvents business since a new, aggressive competitor entered the field in 1991. Between that time and mid-1994, it had succeeded in not only taking market share from both ISP and our traditional competitor, BASF, but so also severely disrupting prices in the process. But now, as a result of improved worldwide demand for our intermediates and solvents products coming principally, with respect to intermediates, from PBT engineering plastic producers for an increasingly widening range of both automotive and electrical component applications and, as for solvents, increased demand for a number of existing and new applications, together with a very strong regulatory and customer-driven trend to replace chlorinated, and other volatile, solvents with ISP's safer solvent, N-methyl pyrrolidone (NMP), industry-wide capacity utilization rates for these products have substantially increased versus year-ago levels. As a result, while butanediol (B1D) and NMP prices had declined fairly substantially from the beginning of 1992 to mid-1994, higher capacity utilization rates,



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together with substantial raw materials price increases, have enabled the Company to implement worldwide price increases, establishing B1D prices at levels not seen in quite some time and reversing a significant portion of the previous decline in NMP prices. Moreover, further worldwide price increases for both B1D and NMP are expected to be implemented in the second quarter.

Finally, demand for the Company's intermediates and solvents products is expected to continue to increase over the balance of the year. And while competitive conditions in 1996 and beyond will depend in large measure on future worldwide demand for our customers' end-use products, we expect that the trends so plainly apparent last year could well continue for some time to come.

*(2) Geographic Expansion*

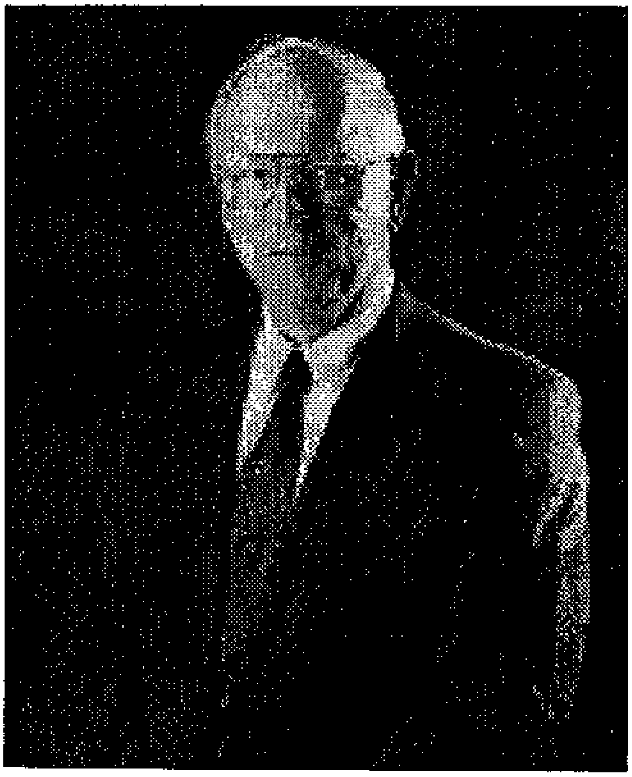
An important development last year, which I believe augers well for the growth of our Company in 1995 and beyond, is the continued emphasis of ISP's specialty derivatives business on increased geographic penetration, with particular focus on the Asia-Pacific and Latin American regions, where sales increased over 1993 levels by 11% and 34% and operating income by 23% and 46%, respectively.

In order to further the geographic expansion of ISP's specialty derivatives business, the Company opened last year new sales and marketing operations, and/or added to the Company's existing presence where it could increase market penetration, in more locations than in any comparable period in the history of our business, with operations having been opened anew or substantially augmented in Beijing and Guangzhou, China; Moscow; Buenos Aires; Bombay; and Warsaw. In addition, with the lifting of the Administration embargo last February, ISP began sales early last year in Vietnam. Moreover, the Company expects to open new offices this year in Caracas, Venezuela, Jakarta, Indonesia, and Chengdu, China.

ISP is increasing its geographic penetration throughout the world not only with the opening of new sales and marketing operations but so also as a result of the increased specialization of our sales force along industry lines, the hiring of additional technical staff to assist the Company's sales force, and a substantial increase this past year in ISP's sales staff, with the United States and international sales forces up by 7% and 12%, respectively. With the opening of three new offices in 1995 and a plan to increase the Company's existing presence in other areas where there are opportunities for greater market penetration, further additions to ISP's sales force will take place in 1995.

*(3) New Products and Applications*

ISP continued this past year its aggressive new product and application development program, which effort should play a part in what we expect will be a year of strong sales growth in 1995.



Carl R. Eckardt, President and Chief Operating Officer

The Company has been particularly active over the last year in the continued development of its already extensive product line for the hair care industry, where we think we have particularly attractive opportunities because of ISP's emphasis on environmentally-friendly chemicals. In this regard, the Company has been involved over the past several years in an intensive effort to tailor its family of products for the hair care industry so as to enable its customers to meet stringent regulatory requirements mandating reduction of volatile organic compounds (VOCs), while at the same time improving the performance characteristics of these products in order to satisfy consumer preferences. To this end, ISP introduced last year a number of new products and applications for the hair care industry, including the following:

Gantrez® A-425, an optimized, molecular weight hair spray polymer, which, while satisfying 80% VOC requirements, enhances the performance characteristics of our current Gantrez® products and provides for formulations covering a wide range of desired properties from natural to stiff feel, so as to appeal to different consumer styles which tend to vary from one region of the world to another; Gafquat® HSi and PVP/Si-10 silicone encapsulate products, which combine ISP's Gafquat® and PVP products with silicone to provide a silky feel for use in hair conditioners, shampoos, and mousses; and Hold EP1, a versatile polymer for use in low VOC or alcohol-free formulations for hair sprays, mousses, and gels and designed so as to satisfy a preference on the part of certain consumers.

So also, the Company developed this past year the next generation of ISP's very successful Gafquat® product, a hair fixative and shampoo conditioner which provides even better holding characteristics and improved conditioning properties, and it is expected that the product will be launched this year.

In addition to new products for the hair care industry, ISP introduced last year a whole host of other new products and applications for use in the cosmetics, skin care, household, industrial and institutional



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cleaners, agricultural, and oil and gas industries, examples of which include the following:

Stabileze® QM, a quick mix viscosity enhancing polymer that provides desired controlled thickening properties in skin and hair care formulations; PVP K-30A, a cosmetic grade PVP specifically designed for skin care use in mascara and eye liners; Cerasynt® IP-V and Cerasynt® SD-V, vegetable-based emulsifiers for hair and skin care; a family of PVP anionic copolymers, with applications for a variety of personal care, specialty industrial coatings, and household, industrial, and institutional cleaner uses; and a family of agricultural adjuvant products, utilizing ISP's new proprietary microemulsion technology, providing pesticides and other related agricultural chemicals with greater adherence, thereby improving performance and reducing environmental risk.

## Prospects For 1995

While we were certainly disappointed with the Company's '92-'93 performance and look back upon this now as a helpful "wake-up call", we are very encouraged by the progress we made in 1994 although the Company's results, we believe, have not yet begun to reflect the growth and profit potential of ISP's businesses. While the Company made progress on the operating margin line this past year, one of our principal objectives in 1995 will be gross margin improvement which we expect to achieve as a result of improved pricing, increased manufacturing efficiencies, and the sale of new products and applications carrying higher profit contributions.

As a result of the significant steps the Company took last year, we entered 1995 with positive forward momentum. In short, we feel good about ISP's prospects for 1995, and while we are not in the habit of making earnings predictions, we would be disappointed if the Company's results this year did not comfortably exceed record '91 earnings and, at the least, approach record '91 operating income (the Company having registered in 1991 $50.6 million in earnings and $121.9 million in operating income).

## Acknowledgments

The true test of the mettle of any organization is not how well it does when everything is going well but rather how it performs when the chips are down and its business is not performing in accordance with expectations. In this respect, 1994 was a critical year for our Company and its management, and there can be little doubt that the improved performance of our employees at virtually every level of the Company contributed in no small measure to ISP's turnaround this past year. As Chief Executive, I am extremely proud of the accomplishments of Carl Eckardt, ISP's President and Chief Operating Officer, his management team, and indeed of all our people. Moreover, I consider myself fortunate to be associated with so many hard working, dedicated, and loyal employees who approach their responsibilities and share the objectives of ISP's senior management with such an extraordinary degree of intensity.

Not only am I delighted that these pages afford me the opportunity to thank our employees for their efforts this past year, but I would also express my appreciation to:

- ISP's customers, whose business we depend upon, whose longstanding loyalty we appreciate, and for whom we at ISP constantly strive to reciprocate in our dedication to providing products of the highest quality at the most competitive prices.
- ISP's Board of Directors for their steadfast support and counsel and for their policy decisions which have contributed to steering a proper course for the Corporation and providing a framework for management.
- ISP's outside professionals, in legal, financial, accounting, consulting, and other related capacities who by alacrity of response, commitment to our principles and viewpoint, and cooperative endeavor have made important contributions in areas critical to the well-being of our Corporation.

ISP's Board of Directors approved last December the open market repurchase of up to 1½ million shares of the Company's common stock. While the repurchased shares will be held for general corporate purposes, the program was intended as well as an expression by our Board not only of its confidence in the future of our Company but so also its belief that our shares remain undervalued in the market.

We look forward to reporting to you in the coming year ISP's continued progress.

Sincerely,

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

March 30, 1995

International Specialty Products is one of the world's premier specialty chemicals companies with a broad line of specialty products, including specialty derivative chemicals, mineral products, filter products, advanced materials, and fine chemicals. The Company has 17 domestic and international manufacturing facilities, including a joint-venture company in Germany, GAF-Hüls Chemie GmbH, and markets its products in 89 countries throughout the world.

### Specialty Derivative Chemicals

ISP manufactures more than 300 specialty derivative chemicals having numerous applications in consumer and industrial products. The Company uses proprietary technology to convert a number of raw materials, through a chain of one or more processing steps, into increasingly complex and higher valued derivatives to meet specific customer requirements. The Company's specialty derivative chemicals, which include intermediates, solvents, vinyl ethers, and polymers, are derived primarily from acetylene, and the Company believes it produces the broadest line of acetylene derivatives available in the world. ISP is also a major producer of cosmetic and industrial preservatives through its Sutton Labs, and skin care products including sunscreen intermediates, emollients, and pearlescent pigments through its Van Dyk business.

ISP's specialty derivative business is organized by end-use industries into three worldwide, market-oriented business units: Personal Care; Pharmaceutical, Agricultural, and Beverage; and Industrial.

#### *Personal Care*

ISP produces a wide range of products for the personal care industry, providing thousands of well-known hair care, skin care, toiletry and cosmetic products with their high performance characteristics. For example, the Company is a leading manufacturer of hair fixatives through its Gantrez®, Gafquat®, and PVP/VA family of products, which provide hairsprays, mousses, and gels with their strong hair holding power.

ISP's state-of-the-art laboratory in Wayne, New Jersey, which includes elaborate facilities for direct consumer testing of hair care products, has played an important role in the development of several significant new products. Last year, the Company introduced Gantrez® A-425, an optimized molecular weight high performance hair spray additive which enables manufacturers to meet strict regulatory requirements involving reduction of volatile organic compounds (VOCs), and in 1995 the Company plans to launch the next generation of Gafquat®, its flagship non-spray fixative used as the holding ingredient in mousses, and as a conditioner in shampoos, which it expects will achieve superior hold and better conditioning properties than original Gafquat®.

Through the development of several important new products and the acquisition of the Van Dyk personal care business, ISP has significantly strengthened its presence in the skin care market and now provides an extremely broad range of products, including ultraviolet absorbers, waterproofing agents, pigments, emollients and emulsifiers, for use in hundreds of skin care applications. Late last year, ISP entered into a marketing alliance with United Guardian through which ISP has obtained exclusive rights to market a line of personal care products manufactured by United Guardian, in the Asia-Pacific region, Eastern Europe and selected countries in Western Europe. The product line includes Lubrajel, a water soluble lubricant and moisturizer used in a full range of skin care and related pharmaceutical applications.

ISP's Sutton Labs produces specialty preservatives, which are marketed worldwide primarily to the cosmetics and personal care industries for use in hair and skin care products, bath and shower, baby, eye makeup, facial makeup and after-shave preparations, and nail products.

Sales of Sutton products have increased significantly since ISP acquired the company six years ago, with Sutton's growth having been primarily fueled by expansion of its overseas business. Over the last several years, the Company has commercialized LiquaPar® Oil, a unique liquid preservative, whose effectiveness and ease of use has ensured the success of this product in a broad range of biocide applications; and the Integra® family of industrial preservatives designed for use in liquid laundry detergents, fabric softeners, dishwashing liquids, wet pulp processing, and water-based paints and coatings.

***Pharmaceutical, Agricultural, and Beverage***

ISP's products for the pharmaceutical, agricultural, and beverage industries provide superior performance characteristics for a substantial number of end-use products while enabling them at the same time to meet increasingly strict worldwide regulatory requirements.

In the pharmaceutical area, ISP products serve as key ingredients in tablets, injectables, cough syrups, antiseptics, toothpaste, denture adhesives and other oral preparations. ISP's Polyplasdone® excipients function as both the binding agent to hold pharmaceutical tablets together and disintegrants which help release the active ingredient in a controlled manner. Sales of Polyplasdone® and Plasdone® excipients continued their strong growth in 1994 as a result of increased penetration of new and existing geographic markets as well as the wider use of these products in generic drugs. Moreover, the Company has several research and development projects currently underway in the areas of direct compression tableting and innovative delivery systems such as transdermal patches.

ISP is a leading producer of inert ingredients for the agricultural industry, where the Company's solvent and polymer products are used for the formulation of safer and more effective agricultural applications. ISP's Agrimer® family of polymers and copolymers are, for example, integral components in formulations such as granules, tablets, and seed coatings, which serve not only to make these formulations safer and more effective but so also reduce the amount of pesticide required for effective pest control. Two surface active solvents which display unique surfactant properties, AgsolEx® 8 and AgsolEx® 12, received EPA approval in 1994 and enjoyed substantial first year sales.

ISP has been a major participant in the beverage industry for many years, where ISP's leading product, Polyclar®, serves the function of ensuring the quality, and extending the shelf life, of beer, wine, and fruit juices. Polyclar® Super R has achieved a high level of customer acceptance for its effectiveness in not only extending the useful life of the end-use product but reducing filtration times. The Company anticipates receiving Japanese regulatory approval in 1995 for use of Polyclar® in Japan's beer industry, thereby promising to open a significant new market for the Company.

### *Industrial*

ISP's specialty derivatives business produces numerous specialty polymers and vinyl ethers for use in a wide range of industrial markets, such as coatings, adhesives, electronics, and metal working, in addition to intermediate and solvent products such as butanediol and N-methyl pyrrolidone (NMP), whose primary applications are for use in high performance plastics, lubricating oil and chemical extraction, electronics cleaning, and coatings.

The Company continued last year to increase its penetration of the household, industrial and institutional cleaning market, especially in the European and Asia-Pacific markets, with sales of its Gaftex® polymers growing substantially as a result of an application using Gaftex® as a dye transfer inhibitor in laundry detergents to prevent the deposition of fugitive colors in mixed color washes. The Company is also developing several new industrial applications for its versatile product line, including an application for the next generation of high density television screens and computer color monitors, where the Company's PVP polymers provide coatings for sharper, clearer images.

ISP has brought to the market over the past several years a family of new environmentally-friendly products, known as Engineered Solvents, to replace chlorinated and other volatile solvents, for use in a variety of industries for cleaning, stripping and degreasing. The product line includes, for example, formulated products especially designed for cleaning applications, such as ShipShape® for fiberglass boat manufacture, PrintSolve® for graphic arts, FoamFlush® for polyurethane foam molders, Partsprep® for metal degreasing, and Micropure® CDF, an ultra pure solvent used in the semi-conductor industry. Increased demand for ever more sophisticated integrated circuits and semi-conductors has spurred demand for more pure forms of solvents, such as ISP's Micropure®. Sales of the Company's Engineered Solvents continued to increase this past year, and are expected to grow at even higher rates as regulatory requirements affecting chlorinated solvents become ever more stringent.

### Mineral Products

ISP's mineral products business manufactures ceramic colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company is one of only two major suppliers of colored roofing granules in North America, with its mineral roofing granules being sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection, and increased weight.

Mineral products sales have benefited from an industry trend toward the increased use of heavyweight, three-dimensional laminated roofing shingles, which require approximately 60% more granules than traditional three-tab lightweight roofing shingles. To meet anticipated increased demand, the Company last year completed a significant capacity expansion at its production facility in Blue Ridge Summit, Pennsylvania.

ISP's mineral products business is one of the nation's leading producers of a fine granular material, ISP Original Fast Dry™, the same material having been formerly marketed by an ISP customer under the name "Har-Tru®", for use in the construction of fast dry, clay-like tennis courts. The Company has been for many years the major supplier of this tennis court material in the northeastern region of the United States and is now in the process of expanding its market coverage to the southeastern part of the country as well.

### Filter Products

ISP's filter products business produces complete filter systems, under the name "GAF Filter Systems", consisting of pressure filter vessels and filter bags designed for the treatment of process liquids primarily in the paint, automotive, chemical, pharmaceutical, petroleum, municipal water, and food and beverage industries. ISP is a leading worldwide supplier of bag filtration equipment, and its strategy over the past several years has been to develop new, higher value-added bag filtration products, expand its share of the filter vessels market, and increase the geographic penetration of its business in the United States as well as the Asia-Pacific and Latin American regions of the world.

The Company expanded in 1994 its worldwide manufacturing presence with the acquisition of a Canadian based manufacturer of filter hardware, expansion of its production capacity at its plant in Sao Paulo, Brazil, and the establishment of a manufacturing facility in Singapore for bag filtration products.

The Company has been one of the most innovative leaders in the bag filtration industry in terms of the introduction of higher value-added bag filtration products, having recently developed the Accurate® 1 absolute micron rated, high efficiency bag filter, which accommodates higher flow rates and has a longer service life than equivalent-rated cartridge filters. The Accurate® 1 product is gaining wide acceptance in such diverse liquid filtration applications as paints and coatings; beer, vinegar and edible oils; and a wide variety of process chemicals. The Company has also recently introduced a new range of POXL™ and PEXL™ Extended Life Filter bags, which helps its customers to substantially reduce their costs through waste minimization, reduced maintenance, and the extension of useful filter life. These new products offer significant growth potential for ISP's filters business, as they satisfy the needs of its customers for cost effective filtration and waste disposal minimization.

### Advanced Materials

ISP manufactures a variety of advanced materials, consisting of high-purity carbonyl iron powders, sold under the Company's trademark, Micropowder®, for use in a number of applications for the aerospace and defense, electronics, powder metallurgy, pharmaceutical, and food industries. In addition, the Company's FDA-approved

Ferronyl® iron has been widely accepted as an iron supplement in multi-vitamins and other pharmaceutical products and is widely regarded by medical experts as safer for these uses than iron salts.

ISP's Advanced Materials business markets a growing range of unique and innovative products, including RAD-SURE®, radiation-sensitive labels which indicate whether hospital blood bags have been properly irradiated; DOSE-MAP®, a product for measuring the radiation distribution of blood devices, and PERM® and GAFCHROMIC® processless electron recording films for a variety of instant imaging, data recording and medical dosimetry applications. Using its unique processless film technology, ISP's Advanced Materials Group teamed with E-Systems Inc. last year to win an important government contract for the development of a novel ultraviolet imaging system. The ISP approach was preferred over technologies proposed by several major film companies.

### Fine Chemicals

ISP Fine Chemicals produces a variety of fine chemicals sold to pharmaceutical, biotechnology, agricultural, and performance polymers businesses. Its broad range of products includes bulk pharmaceuticals, pharmaceutical intermediates, biological buffers used by biotechnology companies in tissue culture media for the production of new pharmaceuticals, and pheromones, insect attractants and sex hormones.

This line is produced at the Company's technologically sophisticated, custom manufacturing facility located in Columbus, Ohio. This highly versatile manufacturing facility provides custom processing capabilities for complex chemical reactions and is being expanded to increase capacity for bulk drugs and pharmaceutical intermediates.

### International Operations

As a result of the Company's continued penetration of existing overseas markets and expansion into new ones, ISP's international sales have grown at an average annual compounded rate of more than 15% over the past ten years and now constitute more than 60% of the Company's total specialty derivative sales. This has been accomplished by means of the development of an experienced, technically trained direct sales force, through the opening of new marketing and sales offices in a number of countries in recent years, including Argentina, China, Hungary, India, Poland, Russia, and Taiwan, and by exporting into countries without sales offices such as Chile, Columbia, Indonesia, Israel, the Philippines, and Vietnam.

Virtually all ISP's specialty derivative chemical and filter product lines are now sold internationally, and approximately 80% of ISP's revenues outside the United States are currently generated by the Company's own sales force, with the balance of its sales made through a worldwide network of experienced ISP distributors.

### Linden Hazardous Waste Facility

ISP's Environmental Services unit received approval in late 1993 from the New Jersey Hazardous Waste Facilities Siting Commission for the construction and operation of a commercial hazardous waste incinerator at the site of its former Linden, New Jersey plant, subject to a number of conditions including the construction of separate ramps leading to and from the New Jersey Turnpike. In April 1994, the Siting Commission requested that the New Jersey Turnpike Authority review the Turnpike issue, and since that time ISP has been involved in ongoing discussions with the Turnpike Authority. The Company is hopeful that it will receive approval some time this year, thereby enabling it to move forward with the next round of the permitting process.

### Quality and Technology

Over the last several years, ISO 9002 certification, an internationally accepted hallmark of quality management and assurance, has been attained at three of the Company's principal manufacturing facilities in Calvert City, Kentucky, Chatham, New Jersey, Texas City, Texas, as well as at its affiliate, GAF-Hüls Chemie GmbH in Marl, Germany. In addition, just this past January, the Company received ISO 9002 certification for its Sint-Niklaas, Belgium, filter bag production facility.

ISP intensified the Company's commitment to its Total Quality Management Process effort last year with the development of a comprehensive quality improvement program for implementation throughout the Corporation. The primary focus in 1994 was on enhancing customer satisfaction through a better understanding of the needs of ISP's customers, quickly translating those needs and expectations into rapid delivery, and continuing to improve the quality of its manufacturing and customer service operations. To this end, more than 40 process improvement and breakthrough teams were established at all levels of the Company to address these areas. Although this work is still ongoing, the teams have already succeeded in producing very positive results in terms of improved first pass quality, increased productive capacity, and reduced operating costs as a result of a whole host of operating efficiences. The increases in manufacturing capacity this past year, achieved through debottlenecking and capital projects involving fairly minimal capital, have enabled the Company to defer for another year its plans to build a European manufacturing facility.

ISP's 1995 quality improvement program, while continuing to address the Company's manufacturing processes and the quality of its products, is expanding its focus this year to deal with a broad range of other Company operations and activities as well. In this vein, this year's program is targeting Company operations such as distribution, management information systems, payroll processing, paperwork, etc., as we believe that there continue to be numerous opportunities at ISP for further cost savings, increased efficiency, and improved quality with regard to all aspects of the work effort of our Company and its employees.

# *Financial Review*

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## 1994 Compared With 1993

In 1994, the Company recorded net income of $44.5 million ($.45 per share) compared with net income of $29.6 million ($.30 per share) for 1993. Net income in 1994 includes an extraordinary charge of $1.2 million ($.01 per share) relating to the refinancing of bank debt, while net income in 1993 reflects a retroactive income tax provision of $2.9 million, representing the effect of a 1% increase in the Federal corporate income tax rate on the Company's net deferred tax liability as of December 31, 1992, and a pre-tax provision of $13.8 million primarily related to the Company's cost reduction program announced in October 1993.

The results for 1994 reflected higher operating income (up $34.1 million), partially offset by a $4.2 million increase in interest expense and a reduction of $7.3 million in other income (expense), net.

Sales for 1994 were $600 million compared with $548.3 million for the year 1993. The sales growth reflected increased sales in most product lines, primarily specialty derivative chemicals (up 11%) and filters (up 12%), in all regions of the world, mainly due to higher volumes and, to a lesser extent, a favorable foreign exchange effect of $4.1 million.

Operating income for 1994 was $99.2 million compared with $65.1 million for 1993. The improvement was attributable to increased sales volumes and lower selling, general and administrative expenses, and the absence of the $13.8 million restructuring charge mentioned above, partially offset by lower gross profit margins due mainly to higher manufacturing costs for specialty derivative chemicals (up approximately $8 million primarily as a result of raw material cost increases), and lower operating income from mineral products. Selling, general and administrative expenses for 1994 were $119.7 million, down 5% from 1993, primarily as a result of the Company's cost reduction and productivity programs.

Of the $34.1 million increase in operating income in 1994, domestic operating income increased by $22 million due primarily to higher export sales to all regions, lower operating expenses and the absence of the prior year restructuring charge; operating income from Europe increased by $7.5 million; and operating income from other foreign operations increased by $4.6 million, mainly in the Asia-Pacific region, in each case after giving effect to a portion of the $13.8 million restructuring charge in 1993 mentioned above. See Note 12 to Consolidated Financial Statements.

Interest expense for 1994 was $28.7 million, an increase of $4.2 million from $24.5 million in 1993. The increase was due primarily to higher interest rates and, to a lesser extent, higher outstanding borrowings.

Other expense was $.1 million in 1994 compared with other income of $7.2 million in 1993. The decrease in 1994 was due primarily to lower net investment income (down $6.7 million). See Note 1 to Consolidated Financial Statements.

## 1993 Compared With 1992

In 1993, the Company recorded net income of $29.6 million ($.30 per share) compared with net income of $50.1 million ($.50 per share) for the year 1992. Net income in 1993 reflects the retroactive income tax provision of $2.9 million and the $13.8 million restructuring charge mentioned above. Net income for 1992 reflects a one-time charge of $7.1 million ($.07 per share), representing the cumulative effect of the change in accounting for postretirement benefits other than pensions, net of a related income tax benefit of $3.9 million.

The 1993 results were impacted by lower operating income (down $42.6 million including the $13.8 million restructuring charge) and by lower earnings of the GAF-Hüls joint venture ("GAF-Hüls") (down $3.9 million), partially offset by a $6.1 million reduction in interest expense and a $4.5 million improvement in other income.

Sales for 1993 were $548.3 million compared with $570.8 million for the year 1992. This sales decrease was primarily attributable to lower sales of mineral products (down 20%) as a result of lower customer demand due primarily to customers lost as a result of increased competition and the absence of storm damage which increased sales in the latter half of 1992, and the adverse effect of a stronger dollar, which impacted sales by $20.2 million. The foregoing factors were partially offset by higher sales of specialty derivative chemicals in the Asia-Pacific region of $12.3 million and the combined incremental sales of the Van Dyk personal care (acquired in March 1992) and the MTM fine chemicals (acquired in February 1993) businesses, which totaled $14.8 million.

Operating income for 1993 was $65.1 million compared with $107.7 million for 1992, with the decrease resulting primarily from the $13.8 million restructuring charge mentioned above, the adverse effect of a stronger dollar, which impacted operating income by $15.6 million, lower operating income from mineral products (down $10.7 million) as a result of the aforementioned sales decline, increased selling, general and administrative expenses, and higher manufacturing costs of specialty derivative chemicals. Such higher manufacturing costs were due to increased production costs (mostly salaries and wages and depreciation related to increased capital investments) coupled with reduced production rates (as the production rate decline which began in the fourth quarter of 1992 and was designed to bring inventories in line with reduced demand continued into the first quarter of 1993).

Of the $28.8 million decrease in operating income in 1993 (before the $13.8 million restructuring charge), domestic operating income decreased by $25.2 million, and operating income from Europe decreased by $7.9 million, while operating income from other foreign operations increased by $4.3 million, mainly in the Asia-Pacific region. The larger decrease in domestic operating income as compared to non-U.S. operating income was primarily due to the higher manufacturing costs for specialty derivative chemicals discussed above, which costs were not allocated to non-U.S. operations.

Interest expense for 1993 was $24.5 million, a reduction of $6.1 million from $30.6 million in 1992. The decrease was attributable to lower interest rates and reduced average outstanding borrowings.

Other income was $7.2 million in 1993 compared with $2.7 million in 1992. The increase in 1993 was due principally to higher investment income, partially offset by higher foreign exchange translation losses and costs related to the sale of accounts receivable.

### Liquidity and Financial Condition

During 1994, the Company generated cash from operations of $62.9 million, and reinvested $47.4 million for capital programs and certain securities, for a net cash inflow of $15.6 million before financing activities. Cash from operations in 1994 included $4.4 million in dividends received from GAF-Hüls.

Net cash used in financing activities in 1994 was $35.5 million, principally comprised of an $82.3 million net paydown of the Company's bank credit agreements and a $12.8 million reduction in short-term borrowings, partially offset by $66.3 million of additional borrowings from an affiliate. The Company paid dividends of $5 million ($.05 per share) on its common stock during 1994.

As a result of the foregoing factors, cash and cash equivalents decreased by $19.9 million during 1994 to $62.9 million.

The Company invests primarily in investment programs which are designed to be "market neutral", including international and domestic convertible arbitrage, hedged utility programs, and securities of companies involved in acquisition or reorganization transactions, including, at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. With respect to its equity positions, the Company is exposed to the risk of market loss. See Note 1 to Consolidated Financial Statements.

On October 5, 1994, the Company refinanced its $400 million revolving credit facility and entered into a new four-year $250 million revolving credit/letter of credit facility and a $150 million renewable one-year revolving credit facility (the "Credit Agreements"). As of December 31, 1994, loans in the amount of $45 million and letters of credit aggregating $8.9 million were outstanding under the long-term Credit Agreement. The Credit Agreements permit the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to $60 million, of which $1.9 million had been utilized as of December 31, 1994.

Borrowings by the Company, including those under the Credit Agreements, are subject to the application of certain financial covenants contained in such agreements and the indenture relating to the Senior Discount Notes due 1998 issued by G-I Holdings Inc. ("G-I Holdings"), the indirect owner of 81% of the Company's common stock. As of December 31, 1994, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amounts available for borrowing under the Credit Agreements. The Credit Agreements and the indenture relating to the Company's 9% Senior Notes limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 7 to Consolidated Financial Statements.

As of December 31, 1994, the Company's scheduled repayments of long-term debt for the twelve months ending December 31, 1995 aggregated $.9 million.

In December 1994, the Company announced a program to repurchase up to 1,500,000 shares of its common stock from time to time in the open market. The repurchased shares will be held for general corporate purposes, including issuance of shares under the Company's stock option plan.

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because of the fact that the Company has been able to implement during the past year cost efficient capacity expansions at its existing manufacturing facilities, the Company intends to proceed with the project as soon as circumstances warrant after taking into account additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, including entering into foreign exchange contracts in order to hedge its exposure. See Note 1 to Consolidated Financial Statements.

The parent corporations of the Company, including GAF Corporation ("GAF"), G-I Holdings, G Industries Corp. and GAF Chemicals Corporation ("GCC"), are essentially holding companies without independent businesses or operations and, as such, are dependent upon the cash flow of their subsidiaries, including the Company, in order to satisfy their obligations, including the asbestos-related claims mentioned below and certain potential tax liabilities including tax liabilities relating to Rhone-Poulenc Surfactants and Specialties, L.P. See Notes 3 and 14 to Consolidated Financial Statements. In the event that such parent corporations were unable to meet their cash needs from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations, or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

Given the current ownership structure of the Company, the ability of the Company to utilize common stock financings for capital expenditures, acquisitions and other corporate purposes, and the ability of GCC to sell shares of the Company's common stock owned by it, are presently impeded because GCC would be unable to utilize significant tax benefits or to receive tax sharing payments, and significant adverse tax consequences to GCC would occur, in the event that it were to own less than 80%

of the outstanding shares of the Company's common stock. Such tax consequences would be eliminated over time as the Company generates earnings. In light of the foregoing, as well as the current market price of the Company's common stock, GCC has advised the Company that it does not currently intend to dispose of shares of the Company's common stock, and the Company does not currently intend to issue shares of its common stock, such that GCC would own less than 80% of the Company's outstanding common stock.

For information with respect to income taxes, see Note 3 to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters. See Note 14 to Consolidated Financial Statements for further information.

GAF has advised the Company that as of December 31, 1994, GAF had been named as a defendant in approximately 48,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber and as a co-defendant in 16 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. For further information regarding asbestos-related claims against GAF, see Note 14 to Consolidated Financial Statements.

# Selected Financial Data



| (Dollars in thousands, except per share amounts) | Year Ended December 31, 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| **Operating data:** | | | | | |
| Net sales | $ 600,047 | $ 548,252 | $ 570,757 | $ 525,786 | $ 511,652 |
| Operating income | 99,245 | 65,091 | 107,664 | 121,852 | 116,764 |
| Interest expense | 28,676 | 24,500 | 30,595 | 52,693 | 85,224 |
| Income before income taxes | 72,484 | 49,823 | 85,782 | 75,682 | 42,037 |
| Income before extraordinary item and cumulative effect of accounting change | 45,752 | 29,558 | 57,182 | 50,646 | 30,559 |
| Net income | 44,515 | 29,558 | 50,113 | 50,646 | 30,559 |
| **Earnings per common share:** | | | | | |
| Income before extraordinary item and cumulative effect of accounting change | $ .46 | $ .30 | $ .57 | $ .56 | $ .38 |
| Net income | $ .45 | $ .30 | $ .50 | $ .56 | $ .38 |
| Dividends per common share | $ .05 | $ .05 | $ .05 | $ — | $ — |
| **Other data:** | | | | | |
| Operating margin | 16.5% | 11.9% | 18.9% | 23.2% | 22.8% |
| EBITDA [1] | $ 147,313 | $ 116,916 | $ 155,693 | $ 165,447 | $ 163,323 |
| Depreciation | 32,753 | 28,737 | 25,610 | 23,247 | 22,308 |
| Goodwill amortization | 13,400 | 13,856 | 13,706 | 13,825 | 13,754 |
| Capital expenditures and acquisitions | 31,098 | 62,858 | 70,464 | 34,422 | 35,627 |

| | December 31, 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| **Balance Sheet data:** | | | | | |
| Total working capital | $ 121,803 | $ 78,263 | $ 179,310 | $ 94,715 | $ 65,658 |
| Total assets | 1,251,304 | 1,243,315 | 1,270,418 | 1,151,175 | 1,140,592 |
| Long-term debt | 377,106 | 367,722 | 493,025 | 413,746 | 698,044 |
| Stockholders' equity | 582,368 | 534,012 | 516,999 | 483,797 | 154,621 |

[1] EBITDA represents earnings before income taxes, extraordinary item and cumulative effect of accounting change, increased by interest expense, depreciation and goodwill amortization.

# Consolidated Statements of Income

| *(Thousands, except per share amounts)* | Year Ended December 31, 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $ 600,047 | $ 548,252 | $ 570,757 |
| Costs and expenses: | | | |
| Cost of products sold | 367,746 | 329,517 | 324,876 |
| Selling, general and administrative | 119,656 | 125,961 | 124,511 |
| Provision for restructuring | – | 13,827 | – |
| Goodwill amortization | 13,400 | 13,856 | 13,706 |
| Total costs and expenses | 500,802 | 483,161 | 463,093 |
| Operating income | 99,245 | 65,091 | 107,664 |
| Interest expense | (28,676) | (24,500) | (30,595) |
| Equity in earnings of joint venture | 2,034 | 2,051 | 5,996 |
| Other income (expense), net | (119) | 7,181 | 2,717 |
| Income before income taxes, extraordinary item and cumulative effect of accounting change | 72,484 | 49,823 | 85,782 |
| Income taxes: | | | |
| Annual provision - current and deferred | (26,732) | (17,320) | (28,600) |
| Adjustment of deferred tax liability for change in tax rate | – | (2,945) | – |
| Income before extraordinary item and cumulative effect of accounting change | 45,752 | 29,558 | 57,182 |
| Extraordinary item, net of $733 income tax benefit | (1,237) | – | – |
| Cumulative effect of change in accounting for postretirement benefits other than pensions, net of $3,913 income tax benefit | – | – | (7,069) |
| Net income | $ 44,515 | $ 29,558 | $ 50,113 |
| Earnings per common share: | | | |
| Income before extraordinary item and cumulative effect of accounting change | $ .46 | $ .30 | $ .57 |
| Extraordinary item | (.01) | – | – |
| Cumulative effect of accounting change | – | – | (.07) |
| Net income | $ .45 | $ .30 | $ .50 |
| Weighted average number of common shares outstanding | 99,888 | 99,889 | 99,889 |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

# Consolidated Balance Sheets

| (Thousands) | December 31, 1994 | 1993 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 20,127 | $ 11,022 |
| Investments in trading securities | 42,737 | 71,764 |
| Investments in available-for-sale securities | 14,583 | – |
| Accounts receivable, trade, less reserve of $2,292 and $2,313 | 55,585 | 41,656 |
| Accounts receivable, other | 9,977 | 7,650 |
| Inventories | 108,787 | 103,700 |
| Other current assets | 14,572 | 14,229 |
| Total Current Assets | 266,368 | 250,021 |
| Property, plant and equipment, net | 477,109 | 478,514 |
| Excess of cost over net assets of businesses acquired, net of accumulated amortization of $78,602 and $65,202 | 443,681 | 457,084 |
| Other assets | 64,146 | 57,696 |
| Total Assets | $ 1,251,304 | $ 1,243,315 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Short-term debt | $ – | $ 12,848 |
| Current maturities of long-term debt | 890 | 681 |
| Loan payable to related party | 41,341 | 66,787 |
| Accounts payable | 47,984 | 39,607 |
| Accrued liabilities | 46,625 | 45,388 |
| Payable to related parties, net | 3,336 | 3,583 |
| Income taxes | 4,389 | 2,864 |
| Total Current Liabilities | 144,565 | 171,758 |
| Long-term debt less current maturities | 285,397 | 367,722 |
| Long-term note payable to related party | 91,709 | – |
| Deferred income taxes | 72,955 | 92,511 |
| Other liabilities | 74,310 | 77,312 |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock, $.01 par value per share; 20,000,000 shares authorized | – | – |
| Common stock, $.01 par value per share; 300,000,000 shares authorized: 99,888,646 shares issued | 999 | 999 |
| Additional paid-in capital | 504,572 | 504,572 |
| Treasury stock, at cost - 49,000 shares | (327) | – |
| Excess of purchase price over adjusted historical cost of predecessor company shares owned by GAF's stockholders | (63,483) | (63,483) |
| Retained earnings | 132,259 | 92,738 |
| Cumulative translation adjustment and other | 8,348 | (814) |
| Total Stockholders' Equity | 582,368 | 534,012 |
| Total Liabilities and Stockholders' Equity | $ 1,251,304 | $ 1,243,315 |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

# Consolidated Statements of Cash Flows



| | Year Ended December 31, | | |
|---|---|---|---|
| *(Thousands)* | 1994 | 1993 | 1992 |
| Cash and cash equivalents, beginning of year | $ 82,786 | $ 81,679 | $ 10,085 |
| Cash provided by operating activities: | | | |
| Net income | 44,515 | 29,558 | 50,113 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 32,753 | 28,737 | 25,610 |
| Goodwill amortization | 13,400 | 13,856 | 13,706 |
| Cumulative effect of accounting change | – | – | 7,069 |
| Provision for restructuring | – | 13,827 | – |
| Deferred income taxes | (16,494) | (13,542) | 6,844 |
| (Increase) decrease in working capital items | (12,010) | 2,868 | (11,348) |
| (Increase) decrease in other assets | (2,311) | 6,586 | (850) |
| Increase (decrease) in other liabilities | (2,090) | 1,847 | (1,539) |
| Increase (decrease) in net payable to/receivable from related parties | (247) | 10,234 | (3,010) |
| Change in cumulative translation adjustment | 8,306 | (6,291) | (10,246) |
| Other, net | (2,884) | 340 | 948 |
| Net cash provided by operating activities | 62,938 | 88,020 | 77,297 |
| Cash used in investing activities: | | | |
| Capital expenditures and acquisitions | (31,098) | (62,858) | (70,464) |
| Designation of securities as available-for-sale | (16,267) | – | – |
| Net cash used in investing activities | (47,365) | (62,858) | (70,464) |
| Cash provided by (used in) financing activities: | | | |
| Proceeds (repayments) from sale of accounts receivable | (1,052) | 24,284 | – |
| Proceeds from termination of interest rate swap agreements | – | 25,069 | – |
| Increase (decrease) in short-term debt | (12,848) | 10,637 | 2,106 |
| Proceeds from debt financing | – | – | 200,000 |
| Repayments of long-term debt | (83,048) | (125,820) | (145,899) |
| Increase in loans from related party | 66,263 | 46,317 | 20,470 |
| Financing fees and expenses | (421) | (176) | (6,922) |
| Dividends | (4,994) | (4,994) | (4,994) |
| Repurchases of common stock | (327) | – | – |
| Other, net | 932 | 628 | – |
| Net cash provided by (used in) financing activities | (35,495) | (24,055) | 64,761 |
| Net change in cash and cash equivalents | (19,922) | 1,107 | 71,594 |
| Cash and cash equivalents, end of year | $ 62,864 | $ 82,786 | $ 81,679 |

| (Thousands) | Year Ended December 31, 1994 | 1993 | 1992 |
|---|---|---|---|
| Supplemental Cash Flow Information: | | | |
| Effect on cash from (increase) decrease in working capital items*: | | | |
| Accounts receivable | $ (14,161) | $ 2,499 | $ 1,915 |
| Inventories | (5,087) | 4,306 | (8,083) |
| Other current assets | 1,688 | 1,239 | 4,899 |
| Accounts payable | 8,187 | 5,036 | (2,746) |
| Accrued liabilities | (4,162) | (896) | (6,369) |
| Income taxes | 1,525 | (9,316) | (964) |
| Net effect on cash from (increase) decrease in working capital items | $ (12,010) | $ 2,868 | $ (11,348) |

* *Working capital items exclude cash, short-term investments, short-term debt and payables to related parties. Working capital acquired in connection with acquisitions is reflected within "Capital expenditures and acquisitions." The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the (increase) decrease in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 4); such proceeds are reflected in cash from financing activities.*

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest (net of amount capitalized) | $ 31,140 | $ 23,969 | $ 27,720 |
| Income taxes (including taxes paid pursuant to the Tax Sharing Agreement) | 44,499 | 38,703 | 24,753 |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

# Consolidated Statements of Stockholders' Equity

| (Thousands) | Capital Stock and Additional Paid-in Capital | Treasury Stock at Cost | Cumulative Translation Adjustment and Other | Retained Earnings |
|---|---|---|---|---|
| December 31, 1991 | $ 505,571 | $ – | $ 18,654 | $ 23,055 |
| Net income | – | – | – | 50,113 |
| Translation adjustment | – | – | (10,246) | – |
| Dividends declared ($.05 per common share) | – | – | – | (4,994) |
| Adjustment of unfunded pension liability | – | – | (1,671) | – |
| December 31, 1992 | $ 505,571 | $ – | $ 6,737 | $ 68,174 |
| Net income | – | – | – | 29,558 |
| Translation adjustment | – | – | (6,291) | – |
| Dividends declared ($.05 per common share) | – | – | – | (4,994) |
| Adjustment of unfunded pension liability | – | – | (1,260) | – |
| December 31, 1993 | $ 505,571 | $ – | $ (814) | $ 92,738 |
| Net income | – | – | – | 44,515 |
| Translation adjustment | – | – | 8,306 | – |
| Dividends declared ($.05 per common share) | – | – | – | (4,994) |
| Repurchases of common stock - 49,000 shares | – | (327) | – | – |
| Unrealized loss on available-for-sale securities, net of $621 income tax benefit | – | – | (1,063) | – |
| Adjustment of unfunded pension liability | – | – | 1,919 | – |
| December 31, 1994 | $ 505,571 | $ (327) | $ 8,348 | $ 132,259 |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

## Note 1

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

International Specialty Products Inc. (the "Company") is an 81% owned subsidiary of GAF Chemicals Corporation ("GCC"), which is a wholly owned subsidiary of G Industries Corp. ("G Industries"), which in turn is a wholly owned subsidiary of G-I Holdings Inc. ("G-I Holdings"). G-I Holdings is a wholly owned subsidiary of GAF Corporation ("GAF").

***Principles of Consolidation***

All subsidiaries are consolidated and intercompany transactions have been eliminated.

***Investment in Joint Venture***

The Company's 50% ownership of GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture which operates a chemical manufacturing plant in Germany, is accounted for by the equity method. The Company's equity in the net assets of GAF-Hüls was $33.5 and $32.3 million as of December 31, 1994 and 1993, respectively, and is included in "Other assets". Dividends received by the Company from GAF-Hüls totaled $4.4, $5.4 and $7.2 million for 1994, 1993 and 1992, respectively.

***Short-term Investments***

Statement of Financial Accounting Standards ("SFAS") No. 115, which became effective January 1, 1994, requires that the Company carry its short-term investments at market value. For securities classified as "trading", unrealized gains and losses are reflected in income. For securities classified as "available-for-sale", unrealized gains and losses are included in a separate component of stockholders' equity, "Cumulative translation adjustment and other". The cumulative effect as of January 1, 1994 of adopting SFAS No. 115 was immaterial. Prior to 1994, such investments were carried at the lower of cost or market; at December 31, 1993, cost approximated market.

"Other income (expense), net", includes $6.2 million of net realized and unrealized gains on securities in 1994, and $10.9 and $2.8 million of net realized gains in 1993 and 1992, respectively. The determination of cost in computing realized gains and losses is based on the specific identification method.

During the fourth quarter of 1994, the Company redesignated an equity security as "available-for-sale", and recorded such security at its fair market value of $16 million at that time. Unrealized losses on such security subsequent to the date of redesignation were $1.1 million, net of related income tax benefit.

As of December 31, 1994 and 1993, the market value of the Company's equity securities held long was $57.3 and $71.8 million, respectively, and the Company had $13.1 and $7.9 million, respectively, of short positions in common stocks, based on market value. With respect to investments in securities, the Company is exposed to the risk of market loss.

The Company considers its short-term investments in equity and debt securities classified as "trading" to be cash equivalents.

***Inventories***

Inventories are stated at the lower of cost or market. The LIFO (last-in, first-out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first-in, first-out) method.

***Depreciation and Capitalized Interest***

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized during the period of construction as part of the cost of property, plant and equipment.

***Foreign Exchange Contracts***

The Company enters into a variety of foreign exchange instruments with off-balance-sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its firm or anticipated purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge firm purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Gains and losses on instruments used to hedge anticipated purchases are recognized within "Other income (expense), net".

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1994 and 1993, the equivalent dollar value of outstanding forward foreign exchange contracts was $110.3 and $70.5 million, respectively, and the amount of deferred gains and losses on such instruments was immaterial at each of such dates.

***Foreign Currency Translation***

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year-end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, "Cumulative translation adjustment", which amounted to $10.6 and $2.3 million as of December 31, 1994 and 1993, respectively. Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in "Other income (expense), net".

***Excess of Purchase Price Over Historical Cost of Predecessor Company Shares***

Stockholders' equity reflects a reduction of $63.5 million which arose from a management-led buyout in March 1989 of the predecessor company to GAF (the "Acquisition"), because certain members of the management group owned shares of the predecessor company's common stock before the Acquisition and own shares of GAF after the Acquisition, and as a result, the purchase method of accounting does not apply to their shares.

***Excess of Cost Over Net Assets of Businesses Acquired ("Goodwill")***

Goodwill, which arose principally from the Acquisition, is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

***Debt Issuance Costs***

Debt issuance costs are amortized to expense over the life of the related debt.

***Research and Development***

Research and development costs are charged to operations as incurred and amounted to $20.3, $21.2 and $21.1 million for 1994, 1993 and 1992, respectively.

## Note 2

### Provision for Restructuring

In the fourth quarter of 1993, the Company recorded a pre-tax provision of $13.8 million, primarily related to the Company's cost reduction program announced in October 1993.

## Note 3

### Income Taxes

Income tax (provision) benefit consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(Thousands)* | 1994 | 1993 | 1992 |
| Federal: | | | |
| Current | $ (36,055) | $ (29,555) | $ (13,648) |
| Deferred | 16,051 | 15,726 | (6,844) |
| Total Federal | (20,004) | (13,829) | (20,492) |
| Foreign - current | (6,019) | (2,984) | (7,181) |
| State and local: | | | |
| Current | (1,152) | (1,268) | (927) |
| Deferred | 443 | 761 | – |
| Total state and local | (709) | (507) | (927) |
| Income tax provision | $ (26,732) | $ (17,320) | $ (28,600) |

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre-tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(Thousands)* | 1994 | 1993 | 1992 |
| Statutory tax provision | $ (25,369) | $ (17,438) | $ (29,166) |
| Impact of: | | | |
| Foreign operations | 1,657 | 3,116 | 3,589 |
| Nondeductible goodwill amortization | (4,690) | (4,849) | (4,660) |
| Percentage depletion | 1,684 | 1,868 | 2,152 |
| Other, net | (14) | (17) | (515) |
| Income tax provision | $ (26,732) | $ (17,320) | $ (28,600) |

The components of the net deferred tax liability are as follows:

| | December 31, | |
|---|---|---|
| *(Thousands)* | 1994 | 1993 |
| Deferred tax liabilities related to: | | |
| Property, plant and equipment | $ 103,294 | $ 107,998 |
| Other | 2,582 | 4,564 |
| Total deferred tax liabilities | 105,876 | 112,562 |
| Deferred tax assets related to: | | |
| Expenses not yet deducted for tax purposes | (24,480) | (11,931) |
| Deferred income | (6,694) | (8,276) |
| Foreign tax credits not yet utilized under the Tax Sharing Agreement | (3,230) | (2,910) |
| Other | (4,660) | (5,518) |
| Total deferred tax assets | (39,064) | (28,635) |
| Net deferred tax liability | 66,812 | 83,927 |
| Deferred tax assets reclassified to other current assets | 6,143 | 8,584 |
| Noncurrent deferred tax liability | $ 72,955 | $ 92,511 |

The Company and each of its domestic subsidiaries have entered into an agreement (the "Tax Sharing Agreement") with GAF and G Industries under which the Company is obligated to pay to G Industries an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own separate Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes - i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) - only at the time such attributes reduce the Federal income tax liability of GAF and its subsidiaries (the "GAF consolidated group"), and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the GAF consolidated group. In general, subject to the foregoing limitations, unused tax attributes will carry forward for use in reducing amounts payable by the Company to G Industries in future years. Subject to certain exceptions, actual payment for such attributes will be made by G Industries to the Company only when GAF receives an actual refund of tax from the Internal Revenue Service or, under certain circumstances, when GAF no longer owns more than 50% of the Company. Foreign tax credits not utilized by GAF will be refunded by G Industries to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration. The net deferred tax liability is ultimately payable to G Industries.

Under certain circumstances, the provisions of the Tax Sharing Agreement result in the Company having a greater current tax liability thereunder than it would have had if it (and its domestic subsidiaries) had filed its own separate Federal income tax return. Moreover, under the Tax Sharing Agreement, the Company and each domestic subsidiary are responsible for any taxes that would be payable by reason of any adjustment to the tax returns of GAF or its subsidiaries, for years prior to adoption of the Tax Sharing Agreement, relating to the business or assets of the Company or any of its domestic subsidiaries. The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, GAF makes all decisions with respect to all matters relating to taxes of the GAF consolidated group.

As members of the GAF consolidated group, the Company and each of its domestic subsidiaries are severally liable for all Federal income tax liabilities of every member of the GAF consolidated group, including tax liabilities not related to the business or assets of the Company and its domestic subsidiaries, although the Company has been indemnified by the other members of the GAF consolidated group for tax liabilities not related to the business or assets of the Company and its domestic subsidiaries.

In connection with Rhone-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership"), GCC has recorded a deferred tax liability in the amount of $131.4 million, which is reflected as a liability on the consolidated balance sheet of G-I Holdings. Payment of this liability (subject to reduction to reflect utilization of the tax attributes of GAF and its subsidiaries) is not expected earlier than 1999 under present circumstances. In certain circumstances, including if GCC were to dispose of property received by it in connection with its retirement from the Surfactants Partnership, GCC could be required to satisfy this liability earlier than 1999. G Industries has assumed, and G Industries and GAF have agreed to jointly and severally indemnify the Company against, such tax liability. The Company is a member of the same consolidated group as GCC and, subject to such indemnification, would be severally liable for any tax liability imposed in connection with the Surfactants Partnership should GCC, G Industries and GAF be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to sufficient funds to satisfy this liability if so required. As of December 31, 1994, the stockholder's equity of G-I Holdings was a deficit of $15.8 million. See Note 10 for information regarding related party transactions.

## Note 4

### Sale of Accounts Receivable

In June 1993, the Company sold its domestic trade accounts receivable, without recourse, for a maximum of $25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. The agreement, as extended, expires on June 30, 1995. The excess of accounts receivable sold over the net proceeds received is included in "Accounts receivable, other". The effective cost to the Company varies with commercial paper rates and is included in "Other income (expense), net".

## Note 5

### Inventories

At December 31, 1994 and 1993, $49.4 and $48 million, respectively, of domestic inventories were valued using the LIFO method. Inventories consist of the following:

| (Thousands) | December 31, 1994 | 1993 |
|---|---|---|
| Finished goods | $ 69,748 | $ 66,736 |
| Work in process | 21,082 | 17,959 |
| Raw materials and supplies | 19,900 | 19,850 |
| Total | 110,730 | 104,545 |
| Less LIFO reserve | (1,943) | (845) |
| Inventories | $108,787 | $ 103,700 |

## Note 6

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

| (Thousands) | December 31, 1994 | 1993 |
|---|---|---|
| Land and land improvements | $ 69,109 | $ 67,494 |
| Buildings and fixtures | 78,808 | 74,047 |
| Machinery and equipment | 422,795 | 370,442 |
| Construction in progress | 36,938 | 69,457 |
| Total | 607,650 | 581,440 |
| Less accumulated depreciation | (130,541) | (102,926) |
| Property, plant and equipment, net | $477,109 | $ 478,514 |

See Note 14 for information regarding capital leases.

## Note 7

### LONG-TERM DEBT

Long-term debt consists of the following:

| (Thousands) | December 31, 1994 | 1993 |
|---|---|---|
| 9% Senior Notes due 1999 | $200,000 | $ 200,000 |
| Borrowings under revolving credit facility | 45,000 | 127,250 |
| Industrial revenue bond | 1,830 | 2,400 |
| Obligation on mortgaged property due 1999 | 38,125 | 38,125 |
| Obligations under capital leases (Note 14) | 1,332 | 628 |
| Total long-term debt | 286,287 | 368,403 |
| Less current maturities | (890) | (681) |
| Long-term debt less current maturities | $285,397 | $ 367,722 |

In connection with the issuance of the 9% Senior Notes due 1999 (the "9% Notes"), the Company entered into interest rate swap agreements ("swaps") with banks in an aggregate notional principal amount of $200 million. In 1993, the Company terminated the swaps, resulting in gains of $25.1 million, and entered into new swaps. The gains were deferred and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of the new swaps, the effective interest cost to the Company of the 9% Notes varies with LIBOR. Based on the fair value of the swaps at March 13, 1995 and December 31, 1993, the Company would have incurred losses of $16 and $3.7 million, respectively, representing the estimated amount that would be payable by the Company if the swaps were terminated at such dates. The estimated fair value of the 9% Notes as of March 13, 1995 and December 31, 1993 was $199.3 and $208.3 million, respectively.

In October 1994, the Company refinanced its $400 million revolving credit/letter of credit facility and entered into a new four-year $250 million revolving credit/letter of credit facility and a $150 million renewable one-year revolving credit facility (the "Credit Agreements"). Borrowings under the Credit Agreements bear interest at a floating rate (6.505% on December 31, 1994). In connection with the refinancing of the bank facility, the Company recorded an extraordinary charge of $1.2 million (after the related income tax benefit of $.7 million), representing the writeoff of deferred financing fees related to the previous bank credit agreement.

As of December 31, 1994, letters of credit aggregating $8.9 million were outstanding under the Credit Agreements. The Credit Agreements permit the Company to make loans to affiliates, and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to $60 million, of which $1.9 million had been utilized as of December 31, 1994.

Borrowings by the Company, including those under the Credit Agreements, are subject to the application of certain financial covenants contained in such agreements and in the indenture relating to the Senior Discount Notes due 1998 issued by G-I Holdings. As of December 31, 1994, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amounts available for borrowing under the Credit Agreements. The Credit Agreements and the indenture relating to the 9% Notes also limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. As of December 31, 1994, under the most restrictive of such limitations, the Company could have paid dividends in the aggregate amount of $36.9 million.

The Credit Agreements and the indenture relating to the 9% Notes contain additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates of the Company, sale-leaseback transactions, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit

Agreements also provide for a default if there is a change in control (as defined) of the Company.

Neither the Credit Agreements nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that, if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured.

The Company believes that the fair value of its non-public indebtedness approximates the book value of such indebtedness, because the interest rates on such indebtedness are at floating short-term rates. The Credit Agreements also provide for adjustments to the interest rate if there is a change in the credit rating of the Company. With respect to the Company's publicly traded debt securities, the Company has obtained estimates of fair values from an independent source believed to be reliable.

The aggregate maturities of long-term debt as of December 31, 1994 for the next five years are as follows:

| *(Thousands)* | |
|---|---|
| 1995 | $ 890 |
| 1996 | 915 |
| 1997 | 941 |
| 1998 | 137,025 |
| 1999 | 238,225 |

In the above table, 1998 maturities include the $91.7 million long-term note payable to G-I Holdings (see Note 10) and the $45 million of borrowings outstanding under the four-year Credit Agreement as of December 31, 1994, based on the expiration of such Credit Agreement in October 1998.

At December 31, 1994, the Company's foreign subsidiaries had unused short-term lines of credit aggregating $27.1 million. The weighted average interest rate on the Company's short-term borrowings as of December 31, 1994 and 1993 was 6.1% and 3.4%, respectively.

## Note 8

## Benefit Plans

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

### *Defined Contribution Plan*

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation. Beginning in 1993, the Company is also contributing fixed amounts, ranging from $50 to $750 per year depending on age, to the accounts of participants who are not covered by a Company-provided postretirement medical benefit plan. The aggregate contributions by the Company were $6.1, $5.2 and $3.4 million for 1994, 1993 and 1992, respectively.

### *Defined Benefit Plans*

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(Thousands)* | 1994 | 1993 | 1992 |
| Service cost | $ 363 | $ 395 | $ 559 |
| Interest cost | 1,253 | 1,134 | 986 |
| Actual (income) loss on plan assets | (924) | (985) | 75 |
| Net deferral and amortization of unrecognized prior service cost and actuarial (gains) losses | 343 | 467 | (601) |
| Net periodic pension cost | $ 1,035 | $ 1,011 | $ 1,019 |

The following table sets forth the funded status of the Hourly Retirement Plan:

| | December 31, | |
|---|---|---|
| *(Thousands)* | 1994 | 1993 |
| Accumulated benefit obligation: | | |
| Vested | $ 13,460 | $ 15,030 |
| Nonvested | 2,360 | 2,010 |
| Total accumulated benefit obligation | $ 15,820 | $ 17,040 |
| Projected benefit obligation | $ 15,820 | $ 17,040 |
| Fair value of plan assets, primarily listed stocks and U.S. Government securities | (10,766) | (9,759) |
| Projected benefit obligation in excess of plan assets | 5,054 | 7,281 |
| Unrecognized prior service cost | (2,075) | (1,934) |
| Unrecognized net loss | (1,180) | (3,099) |
| Unfunded accrued pension cost | $ 1,799 | $ 2,248 |

The difference of $3,255,000 between the projected benefit obligation in excess of plan assets and the unfunded accrued pension cost as of December 31, 1994 has been recorded by the Company as a liability, offset by an intangible asset of $2,075,000 and a reduction of stockholders' equity of $1,180,000. The foregoing amounts will be amortized to expense over a period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan.

In determining the projected benefit obligation, the weighted average assumed discount rate was 9% and 7.5% for 1994 and 1993, respectively. The expected long-term rate of return on assets, used in determining net periodic pension cost, was 9% for 1994 and 1993.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was $1.2, $.8 and $.3 million for 1994, 1993 and 1992, respectively.

***Postretirement Medical and Life Insurance***

The Company provides certain medical and life insurance benefits for all retirees who were formerly hourly employees and for certain retirees who were formerly salaried employees. Certain hourly employees may become eligible for benefits if they reach retirement age while working for the Company.

During 1992, the postretirement medical and life insurance plans for salaried employees were terminated, with certain exceptions for salaried employees then over age 55 with 10 years of service. Retirees as of December 31, 1992 who were formerly salaried employees maintain life insurance coverage and receive a Company subsidy of up to $800 per year towards medical coverage, with certain exceptions. Subsequently, the Company negotiated the termination of postretirement medical and life insurance plans for hourly employees, with certain exceptions for hourly employees then over age 50 with 15 or more years of service.

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". Under SFAS No. 106, the Company is required to accrue the estimated cost of retiree benefits, other than pensions, during covered employees' active service periods. The Company previously charged the cost of these benefits to expense as the benefits were paid. SFAS No. 106 has no effect on the Company's cash disbursements for retiree medical and life insurance benefits, as the Company funds these benefits as they become payable. The cumulative effect of adopting SFAS No. 106 was a one-time charge against earnings of $7.1 million ($.07 per share), after the related income tax benefit of $3.9 million.

The following table shows the components of the accrued postretirement health care cost obligation as of December 31, 1994 and 1993:

| | December 31, | |
|---|---|---|
| *(Thousands)* | 1994 | 1993 |
| Accumulated postretirement benefit obligation: | | |
| Retirees, dependents and beneficiaries eligible for benefits | $ 8,038 | $ 9,031 |
| Active employees fully eligible for benefits | 1,967 | 3,019 |
| Active employees not fully eligible for benefits | 107 | 1,279 |
| Total accumulated postretirement benefit obligation | 10,112 | 13,329 |
| Fair value of plan assets | – | – |
| Unrecognized prior service cost and unrecognized net gains (losses) | 1,027 | (2,495) |
| Accrued postretirement benefit obligation | $ 11,139 | $ 10,834 |

The net periodic postretirement benefit cost included the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| *(Thousands)* | 1994 | 1993 | 1992 |
| Service cost | $ 39 | $ 75 | $ 133 |
| Interest cost | 845 | 1,012 | 915 |
| Amortization of unrecognized prior service cost and net (gains)losses from earlier periods | (25) | – | – |
| Net periodic postretirement benefit cost | $ 859 | $1,087 | $1,048 |

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1992 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of $800 per year. With respect to retirees who were formerly hourly employees, most such retirees are subject to a $5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 15% and 9% annual rate of increase in the Company's per capita cost of providing medical benefits was assumed for 1995 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 9% and 7.5% for 1994 and 1993, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1994 by $790,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1994 by $113,000.

## Note 9

### Stock Option Plan

The 1991 Incentive Plan for Key Employees (the "1991 Incentive Plan") authorizes the grant of options to purchase a maximum of 3,000,000 shares of the Company's common stock. The exercise price of options granted must be at least equal to the fair market value of such shares on the date of grant. The options become exercisable 20% per year on the first through the fifth anniversaries of the date of grant.

In 1993, the Company extended an offer to holders of outstanding stock options with exercise prices ranging from $7.25 to $14.00 to exchange their existing options for a lesser number of new options with an exercise price of $6.75.

The following is a summary of transactions pertaining to the 1991 Incentive Plan:

| *(Number of Shares)* | **1994** | 1993 | 1992 |
|---|---|---|---|
| Outstanding January 1 | **1,228,964** | 1,883,649 | 836,248 |
| Granted | **1,321,020** | 825,509 | 1,064,322 |
| Exercised | **–** | – | – |
| Exchanged | **–** | (1,177,518) | – |
| Terminated | **(350,268)** | (302,676) | (16,921) |
| Outstanding December 31 | **2,199,716** | 1,228,964 | 1,883,649 |
| At December 31: | | | |
| Exercisable | **332,763** | 151,118 | 164,238 |
| Available for grant | **800,284** | 1,771,036 | 1,116,351 |
| Option Price Range Per Share: | | | |
| Outstanding | **$ 6.125- $ 14.00** | $ 6.75- $ 14.00 | $ 11.625- $ 14.00 |

As of December 31, 1994, vested options with exercise prices below market price were exercisable for 126,631 shares. In order to remain a member of the GAF consolidated tax group, the Company may not issue more than an aggregate of approximately 785,000 unissued shares of common stock. The Company intends to purchase shares on the open market (and/or issue such additional 785,000 shares) to satisfy options which are exercised. Any shares purchased by the Company on the open market would be issued to option holders, upon exercise of options, at the respective exercise prices. Any such purchases of shares by the Company on the open market would be subject to applicable legal requirements and satisfaction of covenant tests under the Company's debt instruments. The Company believes that it would be able to comply with such restrictions, and as of December 31, 1994, the Company would have been permitted to purchase such shares under its debt instruments. Accordingly, no compensation expense has been recorded in connection with stock options.

## Note 10

### Related Party Transactions

Building Materials Corporation of America ("BMCA"), an indirect subsidiary of GAF, acquired the operating assets and certain liabilities of GAF Building Materials Corporation, an indirect subsidiary of GAF, as of January 31, 1994. The information below retroactively reflects the formation of BMCA as of the beginning of the periods presented. BMCA has been for many years a major customer for the Company's mineral products. In 1994, BMCA purchased approximately $42.5 million of mineral products from the Company, representing approximately 7% of the Company's total net sales and approximately 52% of the Company's net sales of mineral products. Such sales by the Company to BMCA totaled $43.5 and $41.4 million for 1993 and 1992, respectively. BMCA purchases 100% of its colored roofing granule requirements from the Company (except for the requirements of its California roofing plant which are supplied by a third party). Through December 31, 1993, sales to BMCA were made under a supply contract which expired on that date. Since that time, BMCA continued to purchase from the Company such requirements and, effective as of January 1, 1995, the Company and BMCA renewed that agreement for one year, subject to annual renewal unless terminated by the Company or BMCA.

The receivable from BMCA for sales of mineral products as of December 31, 1994 and 1993 was $2.6 and $2.4 million, respectively.

Pursuant to a Management Agreement, which expires at the end of 1995, the Company provides certain general management, administrative, and facilities services to certain of its affiliates and its parents, including BMCA, GAF Broadcasting Company, Inc., G-I Holdings and GCC. Charges by the Company for providing such services aggregated $4.4, $4.8 and $4.5 million for 1994, 1993 and 1992, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges were increased to an annual rate of $4.5 million, effective January 1, 1995, and can be further adjusted by amendment if there is a substantial change in the cost to the Company of providing such services. In addition to the management services charge, BMCA paid approximately $.7 million to the Company in each of 1994, 1993 and 1992, primarily for telecommunications and information services, and G-I Holdings and BMCA paid an aggregate of approximately $.3 million in 1994 to the Company for legal services, which in each case were not encompassed within the Management Agreement.

See Note 3 for a discussion of the Tax Sharing Agreement.

Under the terms of the Credit Agreements, the Company or any of its subsidiaries are permitted to make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed $60 million outstanding at any time (see Note 7).

The Company and its subsidiaries also borrow from G-I Holdings and its subsidiaries at the same rates available to the Company under the Credit Agreements. Such borrowings outstanding at December 31, 1994 and 1993 comprised $41.3 and $66.8 million, respectively, classified as current, and $91.7 million as of December 31, 1994, classified as long-term.

Certain executive officers of the Company were granted stock appreciation rights in 1993 and 1994 relating to GAF's common stock. Compensation expense in connection with such stock appreciation rights is reflected in G-I Holdings' operating expense and was immaterial for 1993 and 1994.

## Note 11

### Business Segment Information

| (Millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| | Year Ended December 31, | | |
| Net sales: | | | |
| Specialty Derivative Chemicals | $ 482.4 | $ 434.5 | $ 435.5 |
| Mineral Products (1) | 81.1 | 81.3 | 101.9 |
| Other | 36.5 | 32.5 | 33.4 |
| Net sales | $ 600.0 | $ 548.3 | $ 570.8 |
| Operating income: | | | |
| Specialty Derivative Chemicals | $ 79.9 | $ 59.8 | $ 78.1 |
| Mineral Products | 14.6 | 16.9 | 27.6 |
| Other | 4.7 | 2.2 | 2.0 |
| Provision for restructuring (2) | – | (13.8) | – |
| Total operating income | $ 99.2 | $ 65.1 | $ 107.7 |
| Identifiable assets: | | | |
| Specialty Derivative Chemicals | $ 986.3 | $ 972.6 | $ 1,008.1 |
| Mineral Products | 161.2 | 161.5 | 164.6 |
| Other | 103.8 | 109.2 | 97.7 |
| Total assets | $ 1,251.3 | $ 1,243.3 | $ 1,270.4 |
| Capital expenditures and acquisitions: | | | |
| Specialty Derivative Chemicals | $ 22.5 | $ 54.5 | $ 63.0 |
| Mineral Products | 8.3 | 8.3 | 7.4 |
| Other | 0.3 | 0.1 | 0.1 |
| Total | $ 31.1 | $ 62.9 | $ 70.5 |
| Depreciation: | | | |
| Specialty Derivative Chemicals | $ 25.2 | $ 22.1 | $ 19.7 |
| Mineral Products | 6.8 | 6.2 | 5.5 |
| Other | 0.8 | 0.4 | 0.4 |
| Total | $ 32.8 | $ 28.7 | $ 25.6 |

(1) Includes sales to BMCA of $42.5, $43.5 and $41.4 million for 1994, 1993 and 1992, respectively.
(2) On a segment basis, the provision for restructuring (see Note 2) relates to Specialty Derivative Chemicals ($11.8 million), Mineral Products ($.3 million), and Other ($1.7 million).

**Note**
**12**

**Geographic Information**

Results set forth below for foreign operations represent sales and operating income of foreign-based subsidiaries.

| | Year Ended December 31, | | |
|---|---|---|---|
| *(Millions)* | **1994** | 1993 | 1992 |
| Net sales: | | | |
| Domestic operations [1] | **$ 306.4** | $ 286.8 | $ 304.5 |
| Europe [2] | **187.7** | 167.7 | 188.1 |
| Asia-Pacific | **76.6** | 69.3 | 57.0 |
| Other foreign operations | **29.3** | 24.5 | 21.2 |
| Net sales | **$ 600.0** | $ 548.3 | $ 570.8 |
| Operating income: | | | |
| Domestic operations | **$ 41.3** | $ 26.9 | $ 52.1 |
| Europe | **37.5** | 35.7 | 43.6 |
| Asia-Pacific | **16.2** | 13.2 | 9.8 |
| Other foreign operations | **4.2** | 3.1 | 2.2 |
| Provision for restructuring [3] | **–** | (13.8) | – |
| Operating income | **99.2** | 65.1 | 107.7 |
| Equity in earnings of joint venture | **2.0** | 2.1 | 6.0 |
| Interest expense and other, net | **(28.7)** | (17.4) | (27.9) |
| Income before income taxes, extraordinary item and cumulative effect of accounting change | **$ 72.5** | $ 49.8 | $ 85.8 |
| Identifiable assets: | | | |
| Domestic operations | **$ 1,084.6** | $ 1,091.2 | $ 1,112.4 |
| Europe [4] | **128.9** | 118.5 | 125.6 |
| Asia-Pacific | **28.5** | 24.9 | 20.6 |
| Other foreign operations | **9.3** | 8.7 | 11.8 |
| Total assets | **$ 1,251.3** | $ 1,243.3 | $ 1,270.4 |

(1) Net sales-domestic operations excludes sales by the Company's domestic subsidiaries to foreign-based subsidiaries of $135.1, $113.6 and $118.5 million for 1994, 1993 and 1992, respectively.
(2) Net sales-Europe excludes sales by the Company's European subsidiaries to domestic and other foreign-based subsidiaries of $12.8, $7.2 and $13.1 million for 1994, 1993 and 1992, respectively.
(3) On a geographic basis, the provision for restructuring (see Note 2) relates to domestic operations ($7.6 million), Europe ($5.7 million), Asia-Pacific ($.4 million), and other foreign operations ($.1 million).
(4) Identifiable assets-Europe include the Company's 50% ownership of GAF-Hüls.



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## Note 13

### Acquisitions

In March 1992, the Company acquired the Van Dyk worldwide personal care business ("Van Dyk"), and in February 1993, the Company acquired the MTM fine chemicals business. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair values of the identifiable net assets acquired. The results of such acquisitions, including Van Dyk sales of $22.5 million for the year 1992, are included from the dates of acquisition; the effects were not material to consolidated operations.

## Note 14

### Commitments and Contingencies

GAF, G-I Holdings, G Industries and GCC are presently dependent upon the earnings and cash flow of their subsidiaries, including the Company and BMCA, in order to satisfy their obligations, including as of December 31, 1994, $457.6 million of G-I Holdings' 11.125% Senior Discount Notes due October 1998, the asbestos liability discussed below, and approximately $129.5 million of various tax and other liabilities, including tax liabilities relating to the Surfactants Partnership (discussed in Note 3). Of such obligations, $93.1 million (net of estimated insurance recoveries of $62.8 million) is estimated to be payable during 1995. GAF has advised the Company that it expects to obtain funds to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from subsidiaries, as to which there are restrictions under the Company's Credit Agreements, the indenture relating to the Company's 9% Notes and the indenture relating to BMCA's 11 3/4% Senior Deferred Coupon Notes due 2004, and from payments pursuant to Tax Sharing Agreements between GAF and its subsidiaries. In the event that such parent corporations should become unable to meet their cash requirements from sources other than the Company, they might take various actions, including, among other things, seeking to cause the Company to make distributions to stockholders by means of dividends or otherwise, to make loans to its parent corporations, or cause GCC to sell shares of the Company's common stock. The Company does not believe that the dependence of its parent corporations on the cash flows of their subsidiaries should have a material adverse effect on the operations, liquidity or capital resources of the Company.

***Asbestos Litigation Against GAF***

GAF has advised the Company that, as of December 31, 1994, GAF had been named as a defendant in approximately 48,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber, having resolved approximately 182,000 other lawsuits involving similar claims, and as a co-defendant in 16 pending lawsuits alleging economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises.

The reserve of GAF and G-I Holdings for asbestos bodily injury claims, as of December 31, 1994, was approximately $458.3 million (before estimated present value of recoveries from products liability insurance policies of approximately $212.9 million and related deferred tax benefits of approximately $92.2 million). GAF and G-I Holdings have advised the Company that certain components of the asbestos liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability, as of December 31, 1994, before estimated recoveries from products liability insurance policies, was $518 million. As of such date, G-I Holdings' stockholder's equity was a deficit of $15.8 million.

GAF's and G-I Holdings' estimate of liability for asbestos claims is based on the pending settlement of future asbestos bodily injury claims (described below) becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.

On January 15, 1993, the members of the Center for Claims Resolution (the "CCR"), a non-profit organization of asbestos defendants including GAF, entered into a class-action settlement agreement (the "Settlement") to resolve all future asbestos bodily injury claims (other than claims of those persons who "opted out" of the class by January 24, 1994) against GAF and other members of the CCR. The Settlement, if effective, would operate to limit GAF's liability for future asbestos claims to persons who do not "opt out" of the Settlement by placing a dollar limit on awards and a limit on the number of claims that will be paid to such persons in any one year over the first ten years of the Settlement. On August 16, 1994, the United States District Court in Philadelphia approved the Settlement, holding that the terms of the Settlement are fair to the class as a whole. The favorable resolution of certain



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insurance-related litigation is a condition to the effectiveness of the Settlement. It is anticipated that at least some of those who objected to the Settlement will appeal this decision. While it is impossible to predict with certainty the outcome of any appeal, GAF has advised the Company that it believes that the decision will be affirmed.

GAF and G-I Holdings have advised the Company that they believe that their reserves, which reflect the discounting of a portion of the liabilities, adequately reflect their asbestos-related liabilities. GAF and G-I Holdings have also advised the Company that they anticipate that substantially all of the payments in connection with GAF's and G-I Holdings' liability relating to asbestos bodily injury claims will be made by the end of the year 2004, and that, while they are unable to estimate the amount of liability with respect to claims to be resolved after such period, they believe that GAF will resolve, prior to that time, substantially all the court cases currently pending against it, and that it will further resolve substantially all the claims filed under the Settlement on a relatively current basis, so that the number of claims pending against GAF at the end of such period will be substantially diminished from current levels. GAF and G-I Holdings have advised the Company that, as a result of these and other factors, they believe that the resolution of any claims after such period will not have a material adverse effect on their respective financial positions or results of operations.

Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos-related claims, but the Company cannot predict whether any such claims will be asserted against it or the outcome of any litigation related to such claims. In addition, should GAF be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF, including its indirect holdings of common stock of the Company, and such enforcement could result in a change of control of the Company.

***Environmental Litigation***

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ("Environmental Claims") in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

At most sites, the Company anticipates that liability will be apportioned among the companies found to be responsible for the presence of hazardous substances at the site. Although it is difficult to predict the ultimate resolution of these claims, based on the Company's evaluation of the financial responsibility of the parties involved and their insurers, relevant legal issues and cost sharing arrangements now in place, the Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1994, will be approximately $19.5 million. After a reduction for anticipated insurance recoveries (discussed below) of $7 million, the Company estimates that its net liability will be approximately $12.5 million. Beginning in 1994, the gross environmental liability is included within "Accrued liabilities" and "Other liabilities", and the insurance recoveries are included within "Other current assets" and "Other assets".

In the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity or financial position of the Company. However, adverse decisions or events, particularly as to the merits of the Company's factual and legal defenses to liability and the financial responsibility of the other parties involved at each site, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it is probable that it will receive the anticipated insurance recoveries and it may receive insurance recoveries substantially in excess of the amounts described above. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims and has commenced an action seeking a declaration of the obligations of insurers. The Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims. While the Company believes in the merits of the case, there can be no assurance that the Company will prevail in its efforts to obtain the anticipated insurance recoveries.

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee the Company's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than $7.5 million (in connection with which the Company anticipates insurance recoveries of approximately $5 million).

***Lease Commitments***

Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net", at December 31, 1994 in the amount of $1.3 million. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was $7.4, $7 and $6 million for 1994, 1993 and 1992, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1994 were as follows:

| (Thousands) | Capital Leases | Operating Leases |
|---|---|---|
| 1995 | $ 389 | $ 2,478 |
| 1996 | 389 | 1,716 |
| 1997 | 389 | 1,007 |
| 1998 | 348 | 398 |
| 1999 | 54 | 193 |
| Later years | – | 1,394 |
| Total minimum payments | 1,569 | $ 7,186 |
| Less interest included above | (237) | |
| Present value of net minimum lease payments | $ 1,332 | |

***Other Commitments***

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because of the fact that the Company has been able to implement during the past year cost efficient capacity expansions at its existing manufacturing facilities, the Company intends to proceed with the project as soon as circumstances warrant after taking into account additional opportunities for expansion of existing capacity, end-use demand, and other relevant factors. Costs capitalized to date related to this project are included in "Construction in progress". The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, which designation has been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

# Report of Independent Public Accountants

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 80.6% owned subsidiary of GAF Chemicals Corporation) and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 8 to the consolidated financial statements, effective January 1, 1992, the Company changed its method of accounting for postretirement benefits other than pensions.

Arthur Andersen LLP

Arthur Andersen LLP

Arthur Andersen LLP
Roseland, New Jersey
March 13, 1995

# Supplementary Data (unaudited)

## Quarterly Financial Data (unaudited)

| (Millions, except per share amounts) | 1994 By Quarter First | Second | Third | Fourth | 1993 By Quarter First | Second | Third | Fourth |
|---|---|---|---|---|---|---|---|---|
| Net sales | $ 147.5 | $ 155.8 | $ 149.2 | $ 147.5 | $ 146.2 | $ 148.2 | $ 129.3 | $ 124.6 |
| Cost of products sold | 90.3 | 93.2 | 92.5 | 91.7 | 89.4 | 83.1 | 77.2 | 79.8 |
| Gross profit | $ 57.2 | $ 62.6 | $ 56.7 | $ 55.8 | $ 56.8 | $ 65.1 | $ 52.1 | $ 44.8 |
| Operating income (loss)(1) | $ 24.8 | $ 29.7 | $ 22.8 | $ 21.9 | $ 21.4 | $ 28.3 | $ 17.7 | $ (2.3) |
| Income (loss) before income taxes and extraordinary item | $ 16.5 | $ 23.6 | $ 22.7 | $ 9.7 | $ 17.6 | $ 22.5 | $ 15.1 | $ (5.4) |
| Income taxes: | | | | | | | | |
| Annual (provision) benefit | (6.2) | (8.8) | (8.4) | (3.4) | (6.1) | (7.9) | (5.3) | 2.0 |
| Adjustment of deferred tax liability for change in tax rate | – | – | – | – | – | – | (2.9) | – |
| Income (loss) before extraordinary item | 10.3 | 14.8 | 14.3 | 6.3 | 11.5 | 14.6 | 6.9 | (3.4) |
| Extraordinary item, net of related income tax benefit | – | – | (1.2) | – | – | – | – | – |
| Net income (loss) | $ 10.3 | $ 14.8 | $ 13.1 | $ 6.3 | $ 11.5 | $ 14.6 | $ 6.9 | $ (3.4) |
| Earnings per common share(2): | | | | | | | | |
| Income (loss) before extraordinary item | $ .10 | $ .15 | $ .14 | $ .06 | $ .12 | $ .15 | $ .07 | $ (.03) |
| Extraordinary item | – | – | (.01) | – | – | – | – | – |
| Net income (loss) | $ .10 | $ .15 | $ .13 | $ .06 | $ .12 | $ .15 | $ .07 | $ (.03) |

(1) The Company recorded a $13.8 million pre-tax provision for restructuring in the fourth quarter of 1993.
(2) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

### Market For Common Stock

The following information pertains to the Company's common stock, which is traded on the New York Stock Exchange. As of March 15, 1995, there were 360 holders of record of the Company's outstanding common stock.

| (Dollars) | 1994 By Quarter First | Second | Third | Fourth | 1993 By Quarter First | Second | Third | Fourth |
|---|---|---|---|---|---|---|---|---|
| Price Range of Common Stock: | | | | | | | | |
| High | $ 7 | $ 7 | $ 8 1/2 | $ 8 | $ 9 3/4 | $ 7 5/8 | $ 7 1/2 | $ 7 3/8 |
| Low | 5 3/8 | 5 7/8 | 6 3/8 | 6 | 5 3/4 | 6 1/8 | 6 1/2 | 6 1/4 |
| Cash Dividends Per Common Share | – | $ .025 | – | $ .025 | – | $ .025 | – | $ .025 |

The Company currently pays a semi-annual dividend of 2.5 cents per share. The declaration and payment of dividends is at the discretion of the Board of Directors of the Company. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 7 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends. The timing and amount of dividends paid is dependent upon, among other things, the Company's results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will declare and pay dividends or as to the amounts thereof.

## Board of Directors

**Mark A. Buckstein**
Executive Vice President,
General Counsel and Secretary,
International Specialty
Products Inc.

**Charles M. Diker**
Chairman of the Board,
Cantel Industries Inc.

**Carl R. Eckardt**
President and
Chief Operating Officer,
International Specialty
Products Inc.

**Harrison J. Goldin**
Partner,
Goldin Associates, L.P.

**Samuel J. Heyman**
Chairman of the Board and
Chief Executive Officer,
International Specialty
Products Inc.

**Sanford Kaplan**
Private Investor

**Burton J. Manning**
Chairman and
Chief Executive Officer,
J. Walter Thompson Company

## Corporate Officers

**Samuel J. Heyman**
Chairman of the Board and
Chief Executive Officer

**Carl R. Eckardt**
President and
Chief Operating Officer

**Mark A. Buckstein**
Executive Vice President,
General Counsel and Secretary

**James J. Conway**
Senior Vice President and
General Manager,
Specialty Derivative Chemicals

**Richard B. Olsen**
Senior Vice President and
Chief Financial Officer

**James P. Rogers**
Senior Vice President,
Finance

**James J. Strupp**
Senior Vice President,
Human Resources

**Paul J. Aronson**
Vice President,
Taxes

**Arthur Dresner**
Vice President,
Corporate Development

**Kathleen M. Guinnessey**
Vice President,
Treasurer

**Mark A. Presto**
Vice President,
Corporate Finance

**Jonathan H. Stern**
Vice President,
Controller

# International Specialty Products Facilities

## UNITED STATES

### Manufacturing Facilities
Alabama, Huntsville
Kentucky, Calvert City
Missouri, Annapolis
New Jersey, Belleville
New Jersey, Chatham
Ohio, Columbus
Pennsylvania, Blue Ridge Summit
Tennessee, Memphis
Texas, Seadrift
Texas, Texas City
Wisconsin, Pembine

### Research Laboratories
Alabama, Huntsville
Kentucky, Calvert City
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Chatham
New Jersey, Wayne
Ohio, Columbus
Texas, Texas City

### Sales Offices
California, Sherman Oaks
Illinois, Lombard
Maryland, Hagerstown
New Jersey, Belleville
New Jersey, Bridgewater
New Jersey, Chatham
New Jersey, Wayne
North Carolina, Charlotte
Ohio, Columbus
South Carolina, Greenville
Tennessee, Memphis
Texas, Dallas

## INTERNATIONAL

### Manufacturing Facilities
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Oakville, Ontario
Singapore

### Research Laboratories
Germany, Cologne
Great Britain, Guildford
Singapore

### Sales Offices
Argentina, Buenos Aires
Australia, Box Hill, Victoria
Australia, Silverwater, N.S.W.
Austria, Vienna
Belgium, Sint-Niklaas
Brazil, Sao Paulo
Canada, Mississauga, Ontario
Canada, Ville St. Laurent, Quebec
China, Beijing
China, Guangzhou
China, Shanghai
Czech Republic, Prague
Denmark, Soborg
Finland, Kuaniainen
France, Paris
Germany, Frechen
Great Britain, Manchester
Hong Kong
Hungary, Budapest
India, Bombay
Ireland, Dublin
Italy, Milan
Japan, Osaka
Japan, Tokyo
Korea, Seoul
Mexico, Mexico City
Netherlands, Schiedam
New Zealand, Otahuhu
Norway, Oslo
Poland, Warsaw
Puerto Rico, Rio Piedras
Russia, Moscow
Singapore
Spain, Barcelona
Sweden, Arsta
Switzerland, Baar
Taiwan, Taipei
Thailand, Bangkok
Turkey, Istanbul
Venezuela, Caracas

### Affiliate
GAF-Hüls Chemie GmbH
Germany, Marl

# Shareholder Information

### Annual Meeting
The 1995 Annual Meeting of Shareholders is scheduled to be held at 10 a.m., Monday, May 15, at:
The Bank of New York
48 Wall Street, 11th Floor
New York, New York 10286

### Form 10-K
A copy of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:
International Specialty Products Inc.
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470

### Stock Transfer Agent and Registrar
The Bank of New York
101 Barclay Street
New York, New York 10007
Telephone (800) 524-4458

### Investor Relations
Inquiries should be directed to:
Kathleen M. Guinnessey
Vice President and Treasurer
International Specialty Products Inc.
1361 Alps Road
Wayne, New Jersey 07470
Telephone (201) 628-3463

**International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").**

INTERNATIONAL SPECIALTY PRODUCTS INC.
1361 ALPS ROAD
WAYNE, NEW JERSEY 07470

EXHIBIT 21

Exhibit 21

## LIST OF SUBSIDIARIES

| COMPANY | STATE OF INCORPORATION |
|---|---|
| International Specialty Products Inc. | Delaware |
| ISP Management Company, Inc. | Delaware |
| ISP Chemicals Inc. | Delaware |
| ISP Newark Inc. | Delaware |
| ISP Van Dyk Inc. | Delaware |
| ISP Fine Chemicals Inc. | Delaware |
| ISP Minerals Inc. | Delaware |
| ISP Filters Inc. | Delaware |
| ISP Technologies Inc. | Delaware |
| ISP Mineral Products Inc. | Delaware |
| ISP Environmental Services Inc. | Delaware |
| ISP Realty Corporation | Delaware |
| ISP Real Estate Company, Inc. | Delaware |
| Bluehall Incorporated | Delaware |
| Verona Inc. | Delaware |
| ISP Investments Inc. | Delaware |
| ISP DS Corp. | Delaware |
| ISP Global Technologies Inc. | Delaware |
| ISP International Corp. | Delaware |
| ISP (Puerto Rico) Inc. | Delaware |
| ISP Andina, C.A. | Venezuela |
| ISP Argentina S.A. | Argentina |
| ISP Asia Pacific Pte Ltd. | Singapore |
| ISP (Australasia) Pty. Ltd. | Australia |
| ISP (Belgium) N.V. | Belgium |
| ISP (Belgium) International N.V. | Belgium |
| ISP do Brasil Ltda. | Brazil |
| ISP (Canada) Inc. | Canada |
| ISP Filters (Canada) Inc. | Canada |
| ISP (China) Limited | China |
| ISP Global Technologies (Belgium) S.A. | Belgium |
| ISP Global Technologies Deutschland GmbH | Germany |
| ISP Filters Pte. Ltd. | Singapore |
| International Specialty Products (France) S.A. | France |
| ISP Freignt Services N.V. | Belgium |
| ISP (Great Britain) Co. Ltd. | Great Britain |
| ISP (Hong Kong) limited | Hong Kong |
| ISP (Italia) S.r.l. | Italy |
| ISP (Japan) Ltd. | Japan |
| ISP Mecixo, S.A. de C.V. | Mexico |
| ISP (Norden) A.B. | Sweden |
| ISP (Osterreich) Ges.m.b.h. | Austria |
| ISP Sales (U.K.) Limited | Ireland |

| | |
|---|---|
| ISP (Singapore) Pte. Ltd. | Singapore |
| ISP (Switzerland) A.G. | Switzerland |
| ISP (U.S. Virgin Islands), Inc. | Virgin Islands |
| GAF Insurance Ltd. | Bermuda |

EXHIBIT 23

# ARTHUR ANDERSEN LLP

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated March 13, 1995 included in International Specialty Products Inc.'s (the Company's) Annual Report to Stockholders for the fiscal year ended December 31, 1994. Furthermore, we consent to the incorporation of our report dated March 13, 1995, included in or made part of this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 File No. 33-54724.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Roseland, New Jersey
March 30, 1995